

## THE FINANCIAL CONDITION OF PAMPANGA

Manuel Gerardo G. Duran\*

*The passage of the 1991 Local Government Code was a serious effort at strengthening the financial condition of local government units by providing them with greater revenue raising powers and by devolving many expenditure functions from the national government to local governments. The paper that follows will evaluate the financial condition of a typical high-growth province in the Philippines. It will analyze the factors that shape its financial performance and will determine whether, in recent years, the province has gained greater fiscal autonomy and has become more efficient at providing public goods and services needed for its development.*

*Keywords:* decentralization, financial condition, local autonomy, local government finance, locally-sourced revenues, internal revenue allotment, quarry tax, Pampanga

### I. INTRODUCTION

#### **Province of Pampanga: An Overview**

The purpose of this paper is to analyze the financial condition of the Province of Pampanga. Financial condition (also known as fiscal condition) refers to the ability of a government to meet its financial obligations to its various constituencies. To determine financial condition, this study will analyze revenue and expenditure data for Pampanga covering the period 2003 to 2008. The paper will focus on provincial-level government operations of Pampanga, excluding cities and municipalities.

Pampanga is one of the premier provinces in Central Luzon, the rice producing region of the country. It is ideally located close to Metro Manila, the country's primary business center. Although still considered as having an agriculture-based

economy, Pampanga is the home of many thriving industries that cater both to the local and export markets. These industries include food processing, wood carving, pottery, parol, wood furniture, metal craft, garments, electronics, and tourism, among others.

The province is also host to private industrial estates and two major export processing zones, the Clark Freeport in Angeles City and the Subic Freeport in San Fernando. Being a major recipient of long term government support in infrastructures, the province enjoys the benefits of a national transport system that includes the North Luzon Expressway (NLEX), Subic-Clark-Tarlac Expressway (SCTEX), and the Diosdado Macapagal International Airport in Clark. Because of these and the presence of a well-developed telecommunication and power network and a skilled work force,

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\* Assistant Professor of Economics, U.P. Diliman Extension Program in Pampanga. (Email: manuel\_gerardo.duran@up.edu.ph; duran.gerry@gmail.com).

Pampanga has become a leading investment site for local and foreign companies seeking to locate in the region.

In 2008, the Province of Pampanga was awarded the Galing Pook Award as one of the country's ten outstanding local government units. The award, handed out yearly, is sponsored by the Galing Pook Foundation in partnership with the Local Government Academy, Ford Foundation, and

other local and international non-profit organizations. The award recognizes outstanding local governance programs that impact positively on local government units, engender people participation, and promote efficiency and innovative approaches to local governance. The Province of Pampanga was cited for the dramatic turnaround of its quarry operations.

## II. METHODOLOGY AND FRAMEWORK

The central concern of financial condition analysis is to determine how well a government has met its financial obligations in the past and how well it can meet its present and future financial obligations. It analyzes the interaction between government resources and the demands for expenditures against these resources. A strong financial condition is an important goal of governments that seek to provide essential public goods and services efficiently and equitably.

### Framework

In their seminal work entitled "The Financial Analysis of Governments," Robert Berne and Richard Schramm established a framework for the analysis of the financial condition of local governments.<sup>1</sup> Financial condition is evaluated in five distinct areas – revenues, expenditures, debt, pension, and internal resources. The basic approach is to assess financial condition by comparing all the financial resources available to a government from internal and external sources, with all the demands for government expenditures (expenditure pressures) including obligations to repay debt and make pension payments. The gap between expenditure pressures and available resources constitutes a measure of financial condition. In general, the more the available resources

exceed the expenditure needs, the stronger is the financial health of the government.

In a related study entitled "The Fiscal and Economic Condition of Texas," it was argued that without adequate financial strength, the ability of governments to perform their essential functions is severely limited and may create social costs that can lead to low levels of services, higher taxes, loan default, and loss of local autonomy (Berne & Drennan, 1987b).<sup>2</sup>

This analytical method provides a useful tool for tracking the financial capacities of large sub-national governments in advanced countries. However, in this paper, the approach focuses mainly on revenue and expenditure analyses. The scope of analysis for local government performance in less developed countries like the Philippines would have to be more limited given the smaller size and less developed economies of local units in these countries, high reliance on central government transfers, and absence on any sizable amount of borrowings and pension contribution at the local level.

### Coverage

The study covers two broad areas of concern: revenue analysis and expenditure analysis. Revenue analysis will examine: 1) the adequacy of the provincial government's existing revenue sources; 2) the extent to which the province has relied on internal

fund sources, instead of transfers or subsidies from the national government, in raising revenues; and, 3) its revenue capacity or potential to generate additional revenues to finance future expenditures.

Expenditure analysis will address the effectiveness of the province in meeting the public's demand for various public goods and services. It will determine if current expenditure levels are adequate relative to available resources and needs, and if there are any impending expenditure pressures that may affect the government's financial health in the future.

In addition, this paper will explore the key issue of whether the Province of Pampanga has fully harnessed the greater revenue-generating authority granted to LGUs under the 1991 Local Government Code to increase revenue collection and achieve greater fiscal autonomy

The financial performance of the province will be compared with the performance of a group of other provinces (the "Reference Group") that have similar financial characteristics as Pampanga. The reference group selected consists of the top nineteen first class provinces in the country

ranked by total receipts. In 2007, these are Bulacan, Cavite, Negros Occidental, Cebu, Pangasinan, Laguna, Rizal, Batangas, Quezon, Bataan, Isabela, Bukidnon, Iloilo, Nueva Ecija, Leyte, North Cotabato, Cagayan, Camarines Sur, and Negros Oriental.<sup>3</sup>

The revenue and expenditure data used in this paper were obtained directly from the Provincial Treasurer's Office of Pampanga. These fiscal data are submitted annually by local government units to the Bureau of Local Government Finance (under the Department of Finance) which consolidates and monitors the financial statistics of all LGUs. The financial data for the Reference Group were supplied by BLGF, while the expenditure breakdown for Pampanga was supplemented by statistics from the Commission on Audit. The National Statistics Office, the Philippine Human Development Report of 2005 and 2008/2009 published by the Human Development Network, and the Philippine Countryside in Figures published by the National Statistical Coordination Board, are the main sources of all socio-economic information employed in the study.

### III. RECENT ECONOMIC AND POLITICAL TRENDS IN PAMPANGA

The evaluation of a government's financial condition requires an analysis of its economic base. The ability of a local government to raise its own revenues is tied-up with the economic base of the community. However, in the Philippines, where most economic data are reported at the national and regional levels, data limitations restrict the conduct of a complete economic analysis at the provincial level. For instance, a full study of the economic structure of Pampanga would include an evaluation of income flows, income levels and distribution in the province, requiring information on output by industry as well as employment by sector, that are not available from existing data sources.

Still, the limited set of economic information presented in Table 1 provides some indications of certain vital factors and trends. Real per capita personal income, a key measure of changes in standard of living, has been rising in Pampanga since 2000 and is much higher than real per capita income in the provinces of the Reference Group. Real per capita income in Pampanga grew at 9 percent between 2000 and 2006, while that in the Reference Group contracted by almost the same rate. The disparity in real incomes between Pampanga and other provinces has increased from 9.4 percent in 2000 to 31 percent in 2006.

**Table 1**  
**Selected Economic and Demographic Indicators for Pampanga**

	2000	2003	2006
<b>Real Per Capita Income (1997 NCR Prices)</b>			
Pampanga	28,109	30,383	30,647
Ave. 19 Other Provinces	25,684	23,956	23,400
Pampanga/Ave. 19 Other Provinces	1.094	1.268	1.310
<b>Population</b>			
Pampanga	1,893,200	2,010,300	2,127,900
Ave. 19 Other Provinces	1,711,279	1,767,711	1,910,732
Pampanga/Ave. 19 Other Provinces	1.106	1.137	1.114
<b>Land Area (sq. km.)</b>			
Pampanga	2,123	2,123	2,123
Ave. 19 Other Provinces	6,191	6,533	6,484
Pampanga/Ave. 19 Other Provinces	0.343	0.325	0.327
<b>Life Expectancy (years)</b>			
Pampanga	71.0	71.7	72.4
Ave. 19 Other Provinces	68.1	68.8	70.0
Pampanga/Ave. 19 Other Provinces	1.043	1.042	1.034
<b>% High School Graduate</b>			
Pampanga	53.4	57.4	65.3
Ave. 19 Other Provinces	48.2	49.8	56.2
Pampanga/Ave. 19 Other Provinces	1.108	1.153	1.162
<b>Unemployment Rate</b>			
Pampanga	11.5	13.2	17.1
Ave. 19 Other Provinces	10.3	10.3	9.9
Pampanga/Ave. 19 Other Provinces	1.117	1.282	1.727
<b>Consumer Price Index</b>			
Pampanga	100.0	115.6	139.8
Ave. 19 Other Provinces	100.0	112.3	134.1
Pampanga/Ave. 19 Other Provinces	1.000	1.029	1.043
<b>Human Development Index (HDI)</b>			
Pampanga	0.654	0.686	0.706
Ave. 19 Other Provinces	0.605	0.603	0.614
Pampanga/Ave. 19 Other Provinces	1.081	1.138	1.150

Sources: *The Philippine Countryside in Figures 2001-2007*, National Statistical Coordination Board.

*Philippine Human Development Report 2008/2009*, Human Development Network.

*2000 Census-Based National, Regional and Provincial Population Projections*, National Statistics Office.

Meanwhile, Pampanga's population is higher than the average population of the Reference Group. Since Pampanga's land area accounts for only a third of the average land area in other provinces, its population density substantially exceeds that of the Reference Group by 80 to 90 percent.

The high school graduate ratio, i.e., the percentage of high school graduates among individuals 18 and above, is likewise higher in Pampanga than in other provinces. This reflects a higher adult literacy rate in the province. Moreover, in 2003 and 2006, Pampanga's Human Development Index (HDI) of 0.686 and 0.706, respectively, surpasses the HDI of the Reference Group by nearly 15 percent. The HDI is a summary measure of human development designed by the United Nations Development Programme. It measures achievement in three basic dimensions of human well-being: longevity or a long and healthy life, as measured by life expectancy; knowledge, as measured by education indicators; and standard of living, as measured by per capita income. The high and improving level of Pampanga's HDI since 2000 reflects an overall advancement in the quality of life in the province, which during the period was much higher than in the provinces of the Reference Group.

However, in two important indicators of economic performance, the unemployment rate and inflation rate, the province lags behind the Reference Group. In 2006, the unemployment rate in Pampanga stood at 17.1 percent, way above the 9.9 percent average unemployment rate in other provinces. The unemployment rate has grown faster in Pampanga than in other areas as shown by the increasing ratio between Pampanga's unemployment rate over that of the Reference Group. The inflation rate in the province (as measured by the Consumer Price Index) slightly exceeds that in other

provinces. The inflation rate is an important indicator of underlying cost pressures and a measure of the province's competitive position vis-à-vis other provinces.

This brief review of some broad economic indicators for Pampanga reveals a mixed picture in terms of economic performance. Pampanga outpaced other provinces in real per capita income, literacy rate, and HDI level, but falls behind in terms of unemployment, population density, and inflation rate. As the succeeding sections will show, these economic data will inevitably influence Pampanga's financial condition. High incomes and literacy rates are bound to boost the province's revenue-earning potential, but high rates of unemployment, population density and inflation are potential sources of high future expenditures as well.

Like its economic base, political developments helped shape Pampanga's financial condition. The turnaround of its quarry collections was engineered by Gov. Ed Panlilio who was elected to office in 2007 under a platform of reform and good governance. After assuming office, Gov. Panlilio launched a program to revitalize quarry revenues and also to rid the province of illegal numbers game. However, for various reasons, the new governor and the other elected officials of the province were unable to agree on a unified platform of government; hence, many of the governor's programs did not get full support from these other officials.

The resulting political stalemate led to a contraction of government activities. While provincial revenues rose, expenditures tumbled in 2007 and 2008. This gave rise to huge unutilized fund balances and posed serious concerns on the level and quality of basic services that the government provided. These developments adversely affected Pampanga's financial condition.

#### IV. REVENUE ANALYSIS

##### Overall Revenue Performance

The revenue structure of Pampanga is characteristic of a general weakness in the assignment of fiscal responsibilities between the national government and local government units. This is the inordinately heavy reliance of local governments on the central government for funding support which is due, in part, to the relatively small tax bases assigned to them. From 2003 to 2008, about 85 percent of total financial resources of the province on average came from financial transfers from the national government. Only close to 15 percent of total receipts was generated locally.

Total receipts of Pampanga reached P1,127.94 million in 2008 or more than 50 percent higher than the P744.23 million total

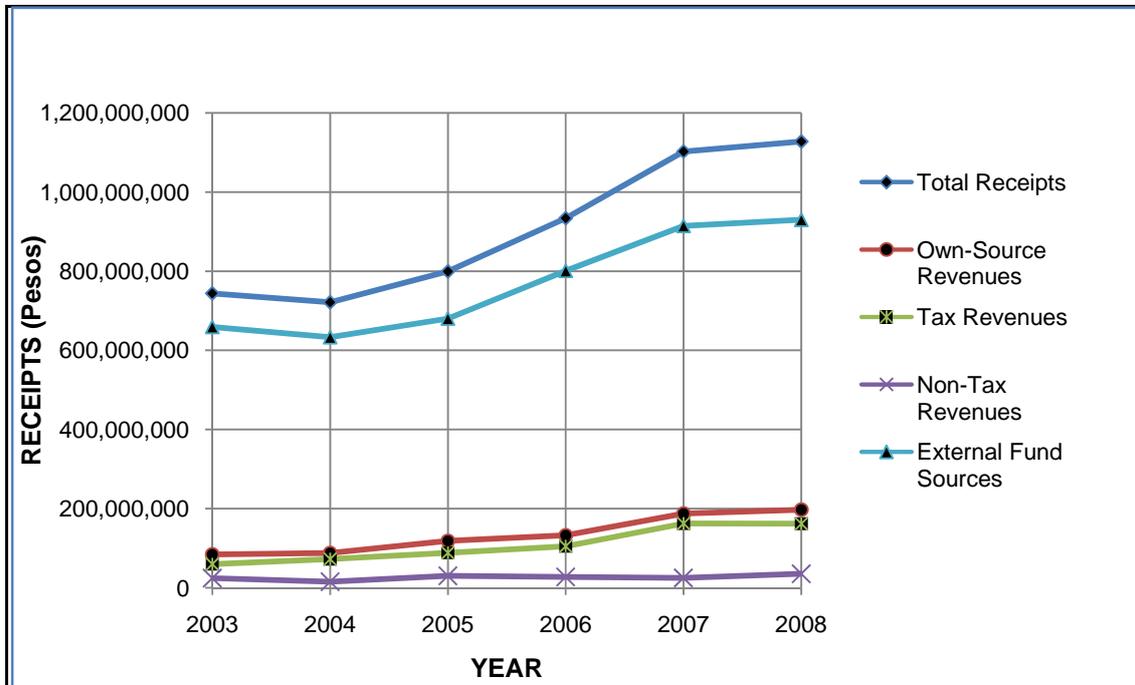
financial resources generated by the province in 2003 (Table 2). Aggregate receipts increased year over year for most of the six-year period except in 2004 when a small decline was posted (Figure 1). The growth in total receipts accelerated from 2005 to 2007 consistent with the higher rate of expansion in the domestic economy during these years and supported by a significant improvement in the collection of some local business taxes. Locally-raised revenues in nominal terms more than doubled between 2003 and 2008, while intergovernmental transfers increased by 41 percent. Even adjusting for price changes, total receipts and own-source revenues registered double-digit growth rates of 14.0 percent and 75.7 percent, respectively, during the period.

**Table 2**  
**Total Receipts of Pampanga**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Growth Rate</u> <u>2003-08</u>
<b>A. Amounts (in million pesos)</b>							
<b>Total Receipts</b>	<b>744.23</b>	<b>721.77</b>	<b>799.61</b>	<b>934.29</b>	<b>1,102.60</b>	<b>1,127.94</b>	<b>51.6</b>
<b>Own-Source Revenues</b>	<b>84.63</b>	<b>88.21</b>	<b>118.91</b>	<b>133.05</b>	<b>187.89</b>	<b>197.75</b>	<b>133.7</b>
Tax Revenues	59.87	72.62	88.36	105.13	162.64	162.11	170.8
Non-Tax Revenues	24.76	15.59	30.55	27.92	25.25	35.64	43.9
<b>External Fund Sources</b>	<b>659.60</b>	<b>633.56</b>	<b>680.71</b>	<b>801.24</b>	<b>914.71</b>	<b>930.19</b>	<b>41.0</b>
Internal Revenue Allotment	625.91	609.56	656.71	767.84	887.71	906.19	44.8
Other External Grants	33.69	24.00	24.00	33.40	27.00	24.00	-28.8
							<u>Average</u> <u>2003-08</u>
<b>B. Percent Distribution</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	
<b>Total Receipts</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Own-Source Revenues</b>	<b>11.4</b>	<b>12.2</b>	<b>14.9</b>	<b>14.2</b>	<b>17.0</b>	<b>17.5</b>	<b>14.5</b>
Tax Revenues	8.0	10.1	11.1	11.3	14.8	14.4	11.5
Non-Tax Revenues	3.3	2.2	3.8	3.0	2.3	3.2	3.0
<b>External Fund Sources</b>	<b>88.6</b>	<b>87.8</b>	<b>85.1</b>	<b>85.8</b>	<b>83.0</b>	<b>82.5</b>	<b>85.5</b>
Internal Revenue Allotment	84.1	84.5	82.1	82.2	80.5	80.3	82.3
Other External Grants	4.5	3.3	3.0	3.6	2.4	2.1	3.2

Source of Basic Data: Provincial Treasurer's Office, Province of Pampanga.

**Figure 1**  
**Total Receipts of Pampanga (2003-2008)**



Resource inflow, however, weakened in 2008 in both nominal and real terms. Aggregate receipts in current prices increased by a meager 2.3 percent from 2007 to 2008, reflecting the dampening effect of the global economic crisis that started in late 2007 on local resources.

**Internally-Generated Revenues**

While locally-sourced revenues accounted for a relatively small share of Pampanga’s revenue inflow, its contribution is important because it is indicative of both the province’s ability to internally finance its growth as well as its effort at becoming more financially self-sufficient. Clearly, the more than doubling of total tax and non-tax revenues between 2003 and 2008 is a significant step towards these objectives. As shown in Table 2 and Figure 1, locally-

generated revenues exhibited a moderately upward trend during most of the study period. It rose from 11.4 percent of total receipts in 2003 to 14.9 percent in 2005, decreased slightly to 14.2 percent in 2006, and climbed again to 17.5 percent of total revenues in 2008.

The bulk of the growth in Pampanga’s own-source revenues came from tax revenues. Tax receipts almost tripled from 2003 to 2008. Its share to total revenues rose from 70.7 percent in 2003 to 82 percent in 2008. Tax collection was bolstered by the nearly six-fold growth of business taxes which benefited directly from the improved collection efficiency of the quarry tax. Table 3 displays a list of various taxes and levies imposed by the government of Pampanga including the revenue bases and applicable rates of each.

**Table 3**  
**Tax Rates and Taxable Bases of Major Taxes and Levies of Pampanga**

<u>Description of Tax</u>	<u>Tax Rate and Tax Base</u>
<b>Real Property Tax</b>	A basic real property tax equivalent to 1% of the assessed value of real property; plus, an additional 1% tax on the assessed value of real property which shall accrue exclusively to the Special Education Fund.
<b>Tax on Transfer of Real Property Ownership</b>	50% of 1% of the total consideration involved in the acquisition of the property or of the fair market value in case the monetary consideration involved in the transfer is not substantial, or in the absence of a specific consideration, whichever is higher.
<b>Tax on Business of Printing and Publication</b>	<p><u>Ongoing Business</u>: 50% of 1% of gross annual receipts for the preceding calendar year on the business of persons engaged in the printing and publication of books, cards, posters, leaflets, handbills, certificates, receipts, pamphlets, and other activities of similar nature.</p> <p><u>Newly Started Business</u> - 1/20 of 1% of the capital investment.</p>
<b>Franchise Tax</b>	<p><u>Ongoing Business</u>: 50% of 1% of gross annual receipts for the preceding calendar year based on the incoming receipts or realized within the territorial jurisdiction of the Province of Pampanga.</p> <p><u>Newly Started Business</u>: 1/20 of 1% of the capital investment.</p> <p><u>Administrative Regulatory Fee</u>: P 1,500.00 annually.</p>
<b>Tax on Sand, Gravel and Other Materials</b>	<p>10% of fair market value in the locality per cubic meter of ordinary stones, sand, gravel, earth, and other quarry resources, extracted from public lands or the beds of seas, lakes, streams, creeks, and other public waters in the Province of Pampanga.</p> <p>*<u>In practice</u>, this tax assessment method is not followed. The actual quarry tax levied is P300 per truck regardless of the type and quality of resources extracted.</p> <p><u>Permit Fee</u>: P2,000.00 annually to operate quarry resources for business purposes.</p>
<b>Professional Tax</b>	P 300.00 annually on persons engaged in the exercise or practice of their professions in the Province of Pampanga.

<u>Description of Tax</u>	<u>Tax Rate and Tax Base</u>
<b>Amusement Tax</b>	30% of the gross receipts from admission fees in theaters, cinemas, concert halls, circuses, boxing stadium, and other places of amusement.  <u>Administrative Regulatory Fee:</u> P1,000.00 annually.
<b>Annual Fixed Tax</b>	Annual fixed tax of P500.00 per truck, van, or any vehicle used by manufacturers, producers, wholesalers, dealers or retailers in the delivery or distribution of distilled spirits, fermented liquors, soft drinks, cigars, and cigarettes to sales outlets, or to consumers, whether directly or indirectly, within the province.  Annual fixed tax of P 200.00 per delivery truck or van used for the delivery of goods other than distilled spirits, fermented liquors, soft drinks, cigars, and cigarettes to sales outlets, or selling to consumers whether directly or indirectly, within the province.
<b>Service Fees and Charges</b>	P10.00 per page for each copy of official document or records requested; P10.00 for issuance of certificate of correctness of public documents; P20.00 per certified true copy of tax declaration; P20.00 for each certification of ownership of real property; P18.00 for each certified copy of tax declaration and other assessment records.
<b>Service Fees and Charges Not Shown</b>	User fees and charges collected by economic enterprises operated by the province such as those charged by its 10 district hospitals.

*Source: Tax Ordinance No. 1, Office of the Provincial Board, Province of Pampanga.*

**Real property taxes.** As in most local government units, the real property tax (“RPT”) has been historically Pampanga’s most important revenue earner contributing roughly 50 to 60 percent of total provincial revenues. It consists of a basic tax equivalent to one percent of the assessed value of all real properties (land, buildings, and machineries) within the province plus an additional one percent tax on real property for the Special Education Fund. Proceeds of both the basic and additional RPT are shared by the province with municipalities and barangays within its jurisdiction based on a formula prescribed in the Local Government Code.

Actual RPT collections followed an erratic upward trend between 2003 and 2008, rising in 2004, 2006 and 2008 and decreasing moderately in the intervening years (Table 4). However, its contribution to total revenues somewhat weakened recently. In 2008, the RPT’s share to total provincial revenues of 40 percent was significantly below its 55.2 percent share in 2006 and much lower than its 63.6 percent contribution in 2004. This was caused by three critical factors: 1) the declining efficiency of RPT collection; 2) the failure to update the market values of real properties; and, 3) the recent increased importance of business taxes in Pampanga’s revenue structure.

The collection efficiency of the RPT (the ratio of actual tax receipts over estimated tax collectibles) declined during much of the period under study and, in 2005 and 2007, fell below the collection rate of similarly-situated provinces (Table 5). Tepid implementation of penalties in the tax law,

absence of an efficient monitoring system to track delinquent taxpayers coupled with lack of computers and technical staff to effectively administer tax collection, have been cited as the major reasons for this deteriorating performance.

**Table 4**  
**Own-Source Revenues of Pampanga**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<b>Growth Rate 2003-08</b>
<b>A. Amounts (in million pesos)</b>							
<b>Total Revenues</b>	<b><u>84.63</u></b>	<b><u>88.21</u></b>	<b><u>118.91</u></b>	<b><u>133.05</u></b>	<b><u>187.89</u></b>	<b><u>197.75</u></b>	<b><u>133.7</u></b>
<b>Tax Revenues</b>	<b><u>59.87</u></b>	<b><u>72.63</u></b>	<b><u>88.36</u></b>	<b><u>105.13</u></b>	<b><u>162.64</u></b>	<b><u>162.10</u></b>	<b><u>170.8</u></b>
Real Property Tax	43.88	56.14	53.15	73.38	64.04	79.16	80.4
Business Tax	10.36	10.40	28.20	22.79	89.27	68.99	566.2
Other Taxes	5.63	6.09	7.01	8.96	9.33	13.95	147.8
<b>Non-Tax Revenues</b>	<b><u>24.76</u></b>	<b><u>15.58</u></b>	<b><u>30.55</u></b>	<b><u>27.92</u></b>	<b><u>25.25</u></b>	<b><u>35.65</u></b>	<b><u>44.0</u></b>
Regulatory Fees & Service Charges	0.21	0.27	0.20	0.23	0.22	0.28	33.3
Income from Econ. Enterprises	12.34	12.73	17.65	20.99	20.67	23.63	91.5
Other Non-Tax Revenues	12.21	2.58	12.70	6.70	4.36	11.74	-3.8
<b>Average</b>							
<b>B. Percent Distribution</b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2003-08</u></b>
<b>Total Revenues</b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>
<b>Tax Revenues</b>	<b><u>70.7</u></b>	<b><u>82.3</u></b>	<b><u>74.3</u></b>	<b><u>79.0</u></b>	<b><u>86.6</u></b>	<b><u>82.0</u></b>	<b><u>79.2</u></b>
Real Property Tax	51.8	63.6	44.7	55.2	34.1	40.0	48.2
Business Tax	12.2	11.8	23.7	17.1	47.5	34.9	24.5
Other Taxes	6.7	6.9	5.9	6.7	5.0	7.1	6.4
<b>Non-Tax Revenues</b>	<b><u>29.3</u></b>	<b><u>17.7</u></b>	<b><u>25.7</u></b>	<b><u>21.0</u></b>	<b><u>13.4</u></b>	<b><u>18.0</u></b>	<b><u>20.8</u></b>
Regulatory Fees & Service Charges	0.2	0.3	0.2	0.2	0.1	0.1	0.2
Income from Econ. Enterprises	14.6	14.4	14.8	15.8	11.0	12.0	13.8
Other Non-Tax Revenues	14.4	2.9	10.7	5.0	2.3	5.9	6.9

Source: Provincial Treasurer's Office, Province of Pampanga.

**Business taxes.** Apart from the RPT, Pampanga imposes various taxes on businesses including franchises, printing and publication business, extraction of sand,

gravel and quarry resources, admission to amusement places, and delivery trucks and vans. Unfortunately, the tax bases for many of these levies are quite limited, such that

from 2003 to 2006 these taxes accounted only for a modest share of about 16 percent of locally-generated revenues. However, in 2007, the share of business taxes to own-source revenues leaped to 47.5 percent to reach P89.3 million due to the remarkable growth of tax receipts on sand, gravel and quarry resources during that year.

The turnaround of Pampanga's quarrying operations has been considered as the most significant accomplishment of the Panlilio administration. For many years, quarrying activities in the province generated huge

profits to businesses but the tax intake was miniscule due to substantial leakages in the tax collection system and the existence of illegal quarrying activities. In 2007, upon assumption to office, the Panlilio administration streamlined accounting and monitoring procedures and imposed stricter controls on quarry tax collection. As a result, total quarry receipts jumped from an average of only P22 million annually to P119.49 million in the second half of 2007 and to P197 million for the full year of 2008.<sup>4</sup>

**Table 5**  
**Collection Efficiency of Real Property Taxes for Pampanga and Reference Group**

	<u>Pampanga</u>	<u>19 Other Provinces</u>	<u>Pampanga/19 Other Provinces</u>
<b>2003</b>	89.7	61.4	1.46
<b>2004</b>	71.1	55.9	1.27
<b>2005</b>	57.4	66.4	0.86
<b>2006</b>	62.9	54.9	1.15
<b>2007</b>	54.9	57.2	0.96
<b>Average</b>	<u>67.2</u>	<u>59.2</u>	<u>1.14</u>

*Source of Basic Data: Bureau of Local Government Finance*

Proceeds from the quarry tax are shared by the province with municipalities and barangays where quarrying operations are conducted based on a predetermined formula. Under this scheme, 50 percent of the quarry levy goes to the province to cover the operational cost of the quarry enterprise and the balance is divided among the three levels of government based on a 30-30-40 percent ratio. In 2008, based on this revenue sharing formula, the share of the province from total quarry receipts was expected to rise to over P100 million. However, only P63 million has been received by the provincial government since the portion of revenues earmarked for administrative cost, previously allocated solely to the provincial government, is now being contested by

participating municipalities and barangays that are claiming a share in this portion of the levy.

**Other taxes.** The other types of taxes imposed by the province are the tax on the practice of professions, transfer of ownership of real properties, and fines and penalties. This group is a relatively minor source of funds for the province and has contributed only about 6.4 percent of local revenues during the period.

**Non-tax revenues.** In contrast to tax revenues, the share of non-tax income to internally-generated revenues suffered a hefty reduction from 2003 to 2008. As presented in Table 4, non-tax revenues slipped from 29.3 percent of total revenues in 2003 to only 18 percent in 2008. The

combination of low rates and presence of one-shot revenue items may explain this anemic performance.

Nearly 70 percent of non-tax revenues, on average, was derived from incomes from economic enterprises notably the 10 district hospitals being operated by the province. The latter has provided the provincial government with a steady source of income, even though hospital fees and charges have not been updated for many years. Income from investments and proceeds from the sales of assets are the other major revenue sources for this category. In addition, due mainly to stagnant rates, receipts from regulatory fees and service charges contributed less than one percent of own-source revenues.

### **Externally-Sourced Funds**

Financial grants from the national government supplied the bulk of Pampanga's total receipts from 2003 to 2008. Total grants from national government agencies to the province (shown in Table 2) amounted to P930.19 million in 2008, or 41 percent higher than the P659.60 million intergovernmental grants it received in 2003. The 2008 transfers represented 82.5 percent of total receipts which was lower than its share of 88.6 percent in 2003, and reflected an improvement in Pampanga's revenue earning capability from local sources.

The Internal Revenue Allotment ("IRA") comprised around 96.3 percent of Pampanga's external grants. The balance came from grants provided by PAGCOR. The IRA is a mandatory and unconditional block grant that represents the share of local governments from national taxes. Under the Local Government Code, 40 percent of actual national government revenues collected three years before the current year is to be transferred to local government units yearly as internal revenue allotment. The IRA is allocated to the different levels of local government units based on a predetermined

formula set by the Code. Provinces as a group get 23 percent of the IRA. The IRA share of each level of government is then divided among specific local government units based on population, land area, and equal sharing.

Although the growing IRA allocation has increased Pampanga's dependence on national government subsidies for funding, it has also proven to be a relatively steady and predictable source of funds for the province. This has been attained despite occasional reductions in the programmed IRA during years when the national government faced severe budgetary problems. Shares from national taxes increased in absolute terms yearly from 2003 to 2008, except in 2004 when it declined slightly due to the adoption of a re-enacted budget and other austerity measures implemented by the national government. Thereafter, the IRA rebounded again by an average of 16.2 percent annually between 2005 and 2007 buoyed by the improving economy and the realization of the full revenue impact of the Expanded Value-Added Tax (EVAT) during these years.

### **Comparative Analysis of Revenues: Pampanga and the Reference Group**

The foregoing revenue analysis pointed to positive trends in Pampanga's revenue performance with solid increases in own-source revenues particularly tax revenues. However, to gain a complete picture of the province's revenue-generating capability, Pampanga's revenue intake must be compared with the performance of the Reference Group. This will determine whether its revenues are high or low, the reasons for such a trend, and whether revenue increases are possible given future expenditure requirements.<sup>5</sup>

A comparison of the per capita tax receipts of Pampanga and the Reference Group in Table 6 shows that Pampanga underperformed the other provinces in terms of total receipts and in all major revenue

categories. From 2003 to 2007, the average ratio of Pampanga's per capita receipt to the Reference Group was only about 73.3 percent. The ratio was relatively stable at around 71 percent from 2003 to 2006 but jumped to 82.1 percent in 2007 due to the growth of business taxes and shares from national taxes during that year. Moreover, from 2003 to 2007, per capita tax and non-tax revenues in Pampanga jointly accounted for only 46.2 percent of the Reference Group's per capita own-source revenues highlighting the province's low collection performance and much heavier dependence on national government financial assistance than other provinces.

A positive note in Pampanga's revenue picture is the faster growth of tax revenues in Pampanga compared to other provinces, particularly in 2007 when aggregate tax receipts benefited greatly from the more than five-fold increase in quarry tax collections. Thus, the percentage of per capita tax revenues of Pampanga to the Reference Group ballooned from 40.8 percent in 2003 to 82.8 percent in 2007. However, since actual tax collection in Pampanga was less than half of the intake in the Reference Group from 2003 to 2005 and given the modest growth of its RPT and other tax receipts, per capita tax revenue in Pampanga in 2007 (P75.06) was still lower than that in the Reference Group (P90.68).

In terms of specific tax categories, both per capita real property tax and per capita other taxes in Pampanga are way below their corresponding levels in other provinces. For

the entire period of the study, Pampanga's per capita RPT averaged to only 41.6 percent of the per capita RPT in the Reference Group. This low accomplishment rate can be ascribed to the much lower assessed values of real properties in Pampanga compared to other provinces; and, as noted previously, to the deterioration in the RPT collection rate in Pampanga in recent years.<sup>6</sup> However, because of the gains in quarry tax collections discussed above, business tax receipts in 2007 were about four times higher in Pampanga than in the Reference Group. Thus, while the real property tax continues to be the dominant source of internally-raised revenues in other provinces, Pampanga appears to be increasing its reliance on business taxes as another important source of funds.

In terms of non-tax revenues, Pampanga's performance when compared to other provinces was even more unimpressive. Income from user fees and service charges and other non-tax receipts in Pampanga amounted to P12.21 per person in 2003, compared to P30.54 in the Reference Group. From 2003 to 2007, non-tax receipts in Pampanga decreased slightly, whereas collections nearly doubled in the Reference Group. As a result, the percentage of Pampanga's non-tax receipts to the Reference Group dropped from 40 percent in 2003 to only 20.3 percent in 2007. Non-tax revenues are thus a more important provider of funds in other provinces than in Pampanga and the latter has yet to fully mobilize this revenue source to finance its activities.

**Table 6**  
**Comparison of Per Capita Receipts of Pampanga and Reference Group**

A. Amounts (in pesos)	Pampanga					19 Other Provinces				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
<b>Total Receipts</b>	<b>370.10</b>	<b>352.02</b>	<b>382.75</b>	<b>438.96</b>	<b>508.74</b>	<b>530.65</b>	<b>496.47</b>	<b>549.74</b>	<b>591.66</b>	<b>619.58</b>
<b>Own-Source Revenues</b>	<b>42.00</b>	<b>42.91</b>	<b>56.84</b>	<b>62.42</b>	<b>86.61</b>	<b>103.59</b>	<b>106.20</b>	<b>132.22</b>	<b>129.00</b>	<b>147.67</b>
<b>Tax Revenues</b>	<b>29.78</b>	<b>35.43</b>	<b>42.31</b>	<b>49.41</b>	<b>75.06</b>	<b>73.05</b>	<b>71.44</b>	<b>92.84</b>	<b>86.16</b>	<b>90.68</b>
Real Property Tax	21.83	27.39	25.45	34.49	29.55	59.03	57.84	75.87	69.24	73.07
Business Tax	5.15	5.07	13.50	10.71	41.20	7.76	7.79	8.38	9.85	10.22
Other Taxes	2.80	2.97	3.36	4.21	4.30	6.26	5.80	8.59	7.07	7.39
<b>Non-Tax Revenues</b>	<b>12.21</b>	<b>7.47</b>	<b>14.53</b>	<b>13.01</b>	<b>11.55</b>	<b>30.54</b>	<b>34.76</b>	<b>39.38</b>	<b>42.85</b>	<b>56.99</b>
Regulatory Fees & Service Charges	0.10	0.13	0.10	0.11	0.10	4.27	9.43	12.48	11.51	11.36
Income from Econ. Enterprises	6.14	6.21	8.45	9.86	9.54	17.18	13.36	26.40	23.91	29.10
Other Non-Tax Revenues	6.07	1.26	6.08	3.15	2.01	13.36	21.40	12.98	18.94	16.52
<b>External Fund Sources</b>	<b>328.11</b>	<b>309.11</b>	<b>325.92</b>	<b>376.54</b>	<b>422.13</b>	<b>427.06</b>	<b>390.27</b>	<b>417.53</b>	<b>462.66</b>	<b>455.65</b>
Internal Revenue Allotment	311.35	297.40	314.42	360.84	409.67	409.16	380.50	404.57	450.71	447.43
Other External Grants	16.76	11.71	11.49	15.70	12.46	17.90	9.76	12.95	11.95	8.22
<b>Pampanga/19 Other Provinces</b>										
<b>B. Ratios</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Ave.2003-07</b>				
<b>Total Receipts</b>	<b>0.697</b>	<b>0.709</b>	<b>0.696</b>	<b>0.742</b>	<b>0.821</b>	<b>0.733</b>				
<b>Own-Source Revenues</b>	<b>0.405</b>	<b>0.404</b>	<b>0.430</b>	<b>0.484</b>	<b>0.587</b>	<b>0.462</b>				
<b>Tax Revenues</b>	<b>0.408</b>	<b>0.496</b>	<b>0.456</b>	<b>0.573</b>	<b>0.828</b>	<b>0.552</b>				
Real Property Tax	0.370	0.474	0.335	0.498	0.404	0.416				
Business Tax	0.664	0.651	1.612	1.088	4.030	1.609				
Other Taxes	0.448	0.512	0.391	0.595	0.583	0.506				
<b>Non-Tax Revenues</b>	<b>0.400</b>	<b>0.215</b>	<b>0.369</b>	<b>0.304</b>	<b>0.203</b>	<b>0.298</b>				
Regulatory Fees & Service Charges	0.024	0.014	0.008	0.009	0.009	0.013				
Income from Econ. Enterprises	0.357	0.465	0.320	0.413	0.328	0.377				
Other Non-Tax Revenues	0.454	0.059	0.468	0.166	0.122	0.254				
<b>External Fund Sources</b>	<b>0.768</b>	<b>0.792</b>	<b>0.781</b>	<b>0.814</b>	<b>0.926</b>	<b>0.816</b>				
Internal Revenue Allotment	0.761	0.782	0.777	0.801	0.916	0.807				
Other External Grants	0.936	1.199	0.887	1.314	1.516	1.171				

Source of Basic Data: Provincial Treasurer's Office, Province of Pampanga; Bureau of Local Government Finance.

## Revenue Effort

**Province-level revenues.** Apart from simply comparing per capita revenues, an alternative way of evaluating the revenue performance of governmental units is to compare their respective revenue effort. Revenue effort is the percentage of revenues over personal income. It indicates the portion of a community's income that is being paid out to the government as taxes and other levies. The revenue effort and tax effort (the percentage of taxes over personal income) for the Province of Pampanga and the Reference Group are computed in Table 7 for 2003 and 2006, the years when personal income data are available. The revenue effort of the Reference Group is three to four times higher than that of Pampanga. Tax effort data show that residents of other provinces pay twice as much of their income

in taxes than residents of Pampanga.

Part B of Table 7 shows the per capita tax revenues and per capita non-tax revenues of Pampanga and the Reference Group for the years 2003 and 2006 previously found in Table 6. These statistics represent an alternative measure of revenue effort based on population. They reaffirm the much lower tax collection rate or burden in Pampanga than in the Reference Group. However, they also point to a solid improvement in Pampanga's tax effort as measured by the increase in the ratio of Pampanga's per capita tax revenues over the Reference Group from 2003 (40.8 percent) to 2006 (57.3 percent). Despite this, however, it is clear from Table 7 that whether revenue performance is assessed in per capita terms or as a percentage of income, revenue intake is much lower in Pampanga than in other provinces.

**Table 7**  
**Measures of Revenue Effort for Pampanga and Reference Group**  
**(Province-Level Operations)**

	Pampanga		19 Other Provinces		Pampanga/19 Other Provinces	
	2003	2006	2003	2006	2003	2006
<b>A. Income Based (Amounts in million pesos)</b>						
Tax Revenues	59.87	105.13	2,454.54	3,127.76	0.024	0.034
Total Revenues	84.63	133.05	3,622.98	5,101.06	0.023	0.026
Personal Income	84,668	111,084	1,117,180	1,444,416	0.076	0.077
<b>Tax Revenues/Personal Income</b>	<b>0.001</b>	<b>0.001</b>	<b>0.002</b>	<b>0.002</b>	<b>0.500</b>	<b>0.500</b>
<b>Total Revenues/Personal Income</b>	<b>0.001</b>	<b>0.001</b>	<b>0.003</b>	<b>0.004</b>	<b>0.333</b>	<b>0.250</b>
	Pampanga		19 Other Provinces		Pampanga/19 Other Provinces	
	2003	2006	2003	2006	2003	2006
<b>B. Population Based (Amounts in pesos)</b>						
<b>Per Capita Tax Revenues</b>	<b>29.78</b>	<b>49.41</b>	<b>73.05</b>	<b>86.16</b>	<b>0.408</b>	<b>0.573</b>
Real Property Taxes	21.83	34.49	59.03	69.24	0.370	0.498
Business Taxes	5.15	10.71	7.76	9.85	0.664	1.088
Other Taxes	2.80	4.21	6.26	7.07	0.448	0.595
<b>Per Capita Non-Tax Revenues</b>	<b>12.21</b>	<b>13.01</b>	<b>30.54</b>	<b>42.85</b>	<b>0.400</b>	<b>0.304</b>

*Revenues across levels of local governments.* The above analysis can be extended further to determine if the same conclusion holds when revenues from other local governments within the province are included so as to capture the total provincial-local government revenue effort or revenue burden. It has been argued that an area, not

just a particular unit of government, has an ability to raise revenues (Barro, 1985) Hence, a more comprehensive comparison of revenue performance would include the revenues raised by overlapping jurisdictions, that is, by province, cities, and municipalities.

**Table 8**  
**Revenue Effort for All Levels of Government (Province, Cities and Municipalities)**

(Amounts in pesos)	Pampanga		19 Other Provinces		Pampanga/19 Other Provinces	
	<u>2003</u>	<u>2006</u>	<u>2003</u>	<u>2006</u>	<u>2003</u>	<u>2006</u>
<b>A. Income Based</b>						
Per Capita Tax Revenues	258.46	395.70	378.65	479.01	0.683	0.826
Per Capita Total Revenues	343.92	549.17	534.40	696.16	0.644	0.789
Per Capita Income	42117	52204	33263	39787	1.266	1.312
<b>Per Capita Tax Revenue/Per Capita Income</b>	<b>0.006</b>	<b>0.008</b>	<b>0.011</b>	<b>0.012</b>	<b>0.539</b>	<b>0.630</b>
<b>Per Capita Total Revenues/ Per Capita Income</b>	<b>0.008</b>	<b>0.011</b>	<b>0.016</b>	<b>0.017</b>	<b>0.508</b>	<b>0.601</b>
(Amounts in pesos)	Pampanga		19 Other Provinces		Pampanga/19 Other Provinces	
	<u>2003</u>	<u>2006</u>	<u>2003</u>	<u>2006</u>	<u>2003</u>	<u>2006</u>
<b>B. Population Based</b>						
<b>Per Capita Tax Revenues</b>	<b><u>258.46</u></b>	<b><u>395.70</u></b>	<b><u>378.65</u></b>	<b><u>479.01</u></b>	<b><u>0.683</u></b>	<b><u>0.826</u></b>
Real Property Taxes	116.20	183.75	226.59	268.93	0.513	0.683
Business Taxes	118.02	181.93	129.89	183.03	0.909	0.994
Other Taxes	24.24	30.02	22.17	27.05	1.093	1.110
<b>Per Capita Non-Tax Revenues</b>	<b>85.46</b>	<b>153.47</b>	<b>155.75</b>	<b>217.15</b>	<b>0.549</b>	<b>0.707</b>

Table 8 contains provincial-local government revenues for Pampanga and for the Reference Group as a percentage of income and in per capita terms for 2003 and 2006. When aggregate receipts for all levels of government were included, Pampanga's revenue performance dramatically improved. The tax effort rose from 0.1 percent to 0.6

percent in 2003 and from 0.1 percent to 0.8 percent in 2006. The revenue effort jumped to 0.8 percent and 1.1 percent respectively for 2003 and 2006, from 0.1 percent when only provincial-level revenues were included. Similarly, with the expanded definition of revenues, per capita tax collections for Pampanga in 2003 and 2006 increased eight-

fold over the levels based on provincial revenues alone. As a result, Pampanga's per capita tax revenues as a percentage of the Reference Group increased to 68.3 percent in 2003 and to 82.6 percent in 2006.

Notwithstanding these improvements, the unmistakable conclusion remains however that Pampanga is taxing less and generating lower revenues than the provinces in the Reference Group.

### Revenue Capacity

The enhancement of local governments' capability to become more financially independent is a vital objective in local government finance. It is therefore worthwhile to examine Pampanga's ability to internally increase its revenue collections. Revenue capacity (also called fiscal capacity) refers to the amount of revenues that a government can reasonably raise from its existing tax bases. This measure provides a quantitative benchmark against which actual revenues can be compared to indicate the extent to which a government has used up or not used up its revenue potential (Berne & Schramm, 1986).

One popular measure for estimating revenue capacity was that developed by the Advisory Council for Intergovernmental Relations (ACIR) for tax revenues.<sup>7</sup> The ACIR tax capacity is a multi-factor measure of revenue-generating ability that estimates the amount of revenues that can be raised in a local jurisdiction if all potential tax bases in that area are taxed at the average tax rates of all similar jurisdictions in the country. However, this method was not used in this study because of the difficulty of estimating the tax bases of some important local taxes such as the business tax. The latter is a major revenue source for local government units, but estimates of retail sales which is the tax base for this levy is generated only at the national level and not at the provincial-local level. On the other hand, the tax bases of other local taxes tend to be small.

Given these data limitations, two broad single-factor indicators of revenue capacity are utilized in this study – tax effort and per capita taxes. The first revenue capacity measure utilizes income as the basis for measuring revenue capacity. Although income is not the direct tax base for local taxes such as those levied in Pampanga, income is a good measure of the ability to pay taxes. Further, if income is defined comprehensively and there is no tax exporting, it can be argued that all local taxes are paid out of income (Berne & Drennan, 1987b). The tax revenue capacity is then computed by applying the average per capita tax effort of the Reference Group on Pampanga's per capita income to yield a per capita tax revenue capacity for the province.

Based on this method, the computed per capita tax capacities for Pampanga for 2003 and 2006 are 463.29 and P626.45, respectively, which are much higher than the corresponding tax capacities of the Reference Group (Table 9). This is not surprising given the substantially higher level and more rapid growth of real per capita income in Pampanga than in other provinces. However, Pampanga's weak revenue performance in the past clearly manifests that this much higher ability to raise provincial-local taxes has yet to be fully realized and translated into actual receipts. In 2003, this untapped revenue capacity (or reserves) for Pampanga is about P205 per capita, and in 2006, about P231 per capita.

On the other hand, the use of population-based revenue capacity indicators such as per capita tax revenues rests on the assumption that if a province, like Pampanga, behaves like a typical province in its Reference Group, then it should be able to generate per capita receipts close to the average revenue collections of the group. The Reference Group's actual per capita tax revenues then represent the potential revenues or revenue capacity that a typical province can expect to achieve from its revenue bases. Using this method, Pampanga's actual provincial-local

tax and non-tax revenues shown in Table 9 are solidly below their respective revenue capacities. When the difference between actual revenues and revenue capacity for each type of revenue is obtained, the results reveal that Pampanga has considerable unused capacity for real property taxes and

non-tax revenues.

On the whole, the above analysis indicates that whether revenue capacity is measured based on population or as a percentage of income, Pampanga has a substantial revenue capacity that surpasses that of the provinces in the Reference Group.

**Table 9**  
**Revenue Capacity Measures for Pampanga and Reference Group**  
**All-Levels of Governments**

(Amounts in pesos)	Pampanga		19 Other Provinces			
	2003	2006	2003	2006		
<b>A. Income Based</b>						
Per Capita Tax Revenues	258.46	395.70	378.65	479.01		
Per Capita Income	42117	52204	33263	39787		
Per Capita Tax Revenue/Per Capita Income	0.006	0.008	0.011	0.012		
<b>Total Tax Capacity</b>	<b>463.29</b>	<b>626.45</b>	<b>378.65</b>	<b>479.01</b>		
<b>Tax Revenue Reserves</b>	<b>204.83</b>	<b>230.75</b>	<b>0.00</b>	<b>0.00</b>		
	Pampanga		19 Other Provinces		Revenue Reserves	
	2003	2006	2003	2006	2003	2006
<b>B. Population Based</b>						
<b>Per Capita Tax Revenues</b>	<b>258.46</b>	<b>395.70</b>	<b>378.65</b>	<b>479.01</b>	<b>120.20</b>	<b>83.31</b>
Real Property Taxes	116.20	183.75	226.59	268.93	110.40	85.18
Business Taxes	118.02	181.93	129.89	183.03	11.87	1.10
Other Taxes	24.24	30.02	22.17	27.05	-2.07	-2.97
<b>Per Capita Non-Tax Revenues</b>	<b>85.46</b>	<b>153.47</b>	<b>155.75</b>	<b>217.15</b>	<b>70.29</b>	<b>63.68</b>

### Use of Taxing Powers

The 1991 Local Government Code expanded the scope of the revenue powers of local government units. It widened the tax base of many local taxes and also raised the allowable maximum rates at which most local taxes may be levied. Specifically, it empowered LGUs to adjust tax rates once

every five years by a maximum rate of 10 percent and, in the case of the real property tax, to undertake a general revision of market values for real properties once every three years. Although some may argue that these allowable adjustments are insufficient to considerably enhance the LGUs revenue raising capability, many local governments in the past have been found not to have fully

utilized this provision of the Code (Manasan, 2004).

The provincial government of Pampanga has not revised its local tax code since 1992; hence, the rates of all taxes have remained flat for the past 18 years. This situation is problematic because a number of provincial taxes such as the quarry tax, professional tax, and annual fixed tax on delivery trucks and vans, are set at unit rates (nominal peso terms) instead of percentage rates. Consequently, absent regular updating of unit rates, the real values of revenues from these sources would have been eroded over the years due to price increases. As in other LGUs, the failure to raise tax rates has been attributed in large part to the provincial government's concern of a public backlash during elections.

In the case of the quarry tax, the use of a unit rate is particularly unexpected as this contravenes the provisions of the 1991 Local Government Code and Pampanga's own tax code which specified that this levy shall be a percentage tax of not more than 10 percent of the fair market value per cubic meter of sand, gravel and other materials. The present quarry tax is a fixed amount of P300 per truck regardless of the quality or type of quarry resources extracted. Given that the quarry tax has remained unchanged since its first imposition, this means that much of the growth of earnings in recent years has been derived from improvements in tax

administration and compliance. Nevertheless, a much higher tax intake would have been obtained if the required percentage rate instead of unit rate was implemented.

Likewise, the schedule of market values for real properties, which provides the basis of the tax base for the real property tax, has not been updated since 1991. Apparently, the inability to update real property values has also been influenced, in part, by political constraints faced by the provincial government in increasing the tax burden of its constituencies.

One vital area in which the Local Government Code grants local government units substantial leeway in setting rates is in non-tax revenues. Section 153 of the Local Government Code states that local government units may impose and collect reasonable fees and charges for services rendered. Unfortunately, this is also one revenue source in which Pampanga has underperformed historically and in comparison with other jurisdictions. Unlike tax revenues which grew in real terms, per capita non-tax receipts of Pampanga declined in constant prices from 2003 to 2008 by around 4 percent. This dismal collection performance was caused by the failure to update the rates of various fees and service charges, particularly for public enterprises, and by the use of unit rates for many regulatory and permit fees.

## V. EXPENDITURE ANALYSIS

### Over-all Expenditure Performance

Total expenditures of the Province of Pampanga decreased in absolute terms by 9.7 percent from 2003 to 2008 (Table 10). Unlike total receipts which followed an overall upward trend, the pattern for total expenditures was characterized by an inverted V-curve. From P657.29 million in

2003, aggregate expenditures declined in 2004, and then recovered to reach a peak of P748.64 million in 2006. In 2007, it dropped again and plunged to a low of P593.69 million in 2008 (Figure 2). Apparently, the political problems that rocked the provincial government in 2007 and 2008 caused a severe contraction in government expenditures, resulting to a slack in

government activities during these years. Expectedly, the decline of expenditures on a price-adjusted basis from 2003 to 2008 was much greater at around 32 percent.

In per capita terms, total provincial expenditures decreased from P326.96 in 2003 to only P269.11 in 2008 or by 17.7 percent. This reduction in per capita spending rate is nearly twice the slump in total expenditures indicating that overall spending growth in Pampanga has lagged behind population growth.

All four major expenditure sectors (social services, general public services, economic services, and other services) showed erratic annual growth rates from 2003 and 2008. In line with the deep cuts in total spending in 2007 and 2008, expenditures in nearly all sectors registered almost successive yearly reductions in absolute levels in these years. However, the relative expenditure ranking of each sector remained fairly stable throughout the period. In 2008 (as in 2003) social services spending accounted for the lion share of total expenditures. This was followed by general public services, economic services, and other services.

### **Expenditures by Sector**

The sizeable contribution of social services expenditures to total expenditures resulted largely from the devolution of many vital social services functions from national government agencies to local government units, specifically to provincial governments, under the Local Government Code. Devolved functions included the operation and maintenance of hospitals and other tertiary health services, implementation of various social welfare programs and services, and provision of low cost housing.

The dominance of social services expenditures in the provincial government budget of Pampanga mirrored the higher priority that local officials assign to health and social welfare concerns. The latter jointly contributed an average of over 80 percent of total social services spending from 2003 to 2008 and posted positive growth rates in most of the years covered. In addition, health expenditure was only one of two spending categories that grew sequentially in 2007 and 2008, bucking the negative trend in other subsectors.

On the other hand, social services expenditures in education, labor and employment, and housing were among the biggest casualties in expenditure cuts in 2007 and 2008. Spending levels in all three subsectors were relatively stable in 2003 and 2004 and then soared in 2006 in line with the overall expansion of revenue inflow during the year. However, in 2007 and 2008, spending nosedived in all three categories – education expenditures slid by as much as 38 percent and 47.7 percent, respectively, and in 2007, labor and employment spending fell by 27.1 percent while housing expenditures shrunk by 73.8 percent. In 2008, provincial expenditures for housing dropped to zero.

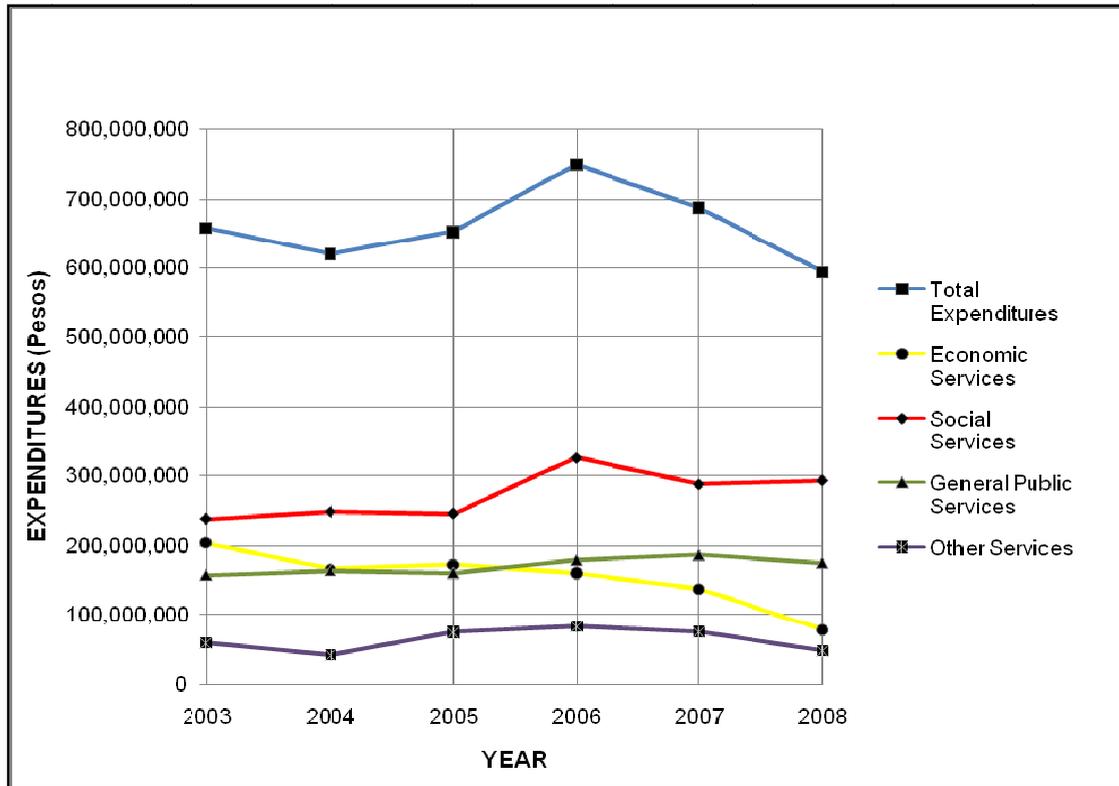
The efficiency and equity repercussions of such low expenditure levels are worrisome. Provincial government expenditures for education augment the national government and city/municipal governments funding for this subsector. Decreased education outlays by the provincial government translate to smaller allocations for instructional materials, maintenance of school facilities, purchase of equipment, and school building construction. This strains the already limited physical resources available in the province to meet the needs of its growing student population.

**Table 10**  
**Total Expenditures of Pampanga**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Growth Rate 2003-08</u>
<b>A. Amounts (in million pesos)</b>							
<b>Expenditures</b>	<b><u>657.29</u></b>	<b><u>619.82</u></b>	<b><u>652.06</u></b>	<b><u>748.64</u></b>	<b><u>687.06</u></b>	<b><u>593.69</u></b>	<b><u>-9.7</u></b>
<b>Economic Services</b>	<b><u>203.73</u></b>	<b><u>166.08</u></b>	<b><u>172.46</u></b>	<b><u>160.25</u></b>	<b><u>137.10</u></b>	<b><u>78.17</u></b>	<b><u>-61.6</u></b>
Agriculture & Agrarian Reform	30.04	30.33	29.57	31.24	33.01	34.65	15.3
Environment & Natural Resources	0.94	1.35	1.35	1.51	1.41	2.06	118.2
Industry, Trade & Tourism	10.70	7.63	9.74	10.30	11.30	3.84	-64.2
Transport & Communication	162.04	126.77	131.80	117.20	91.39	37.62	-76.8
<b>Social Services</b>	<b><u>237.70</u></b>	<b><u>248.09</u></b>	<b><u>245.43</u></b>	<b><u>326.34</u></b>	<b><u>288.06</u></b>	<b><u>293.60</u></b>	<b><u>23.5</u></b>
Education & Manpower Devt.	32.42	31.96	33.20	67.87	42.11	22.01	-32.1
Health & Nutrition	163.60	175.08	180.81	195.60	218.99	221.55	35.4
Labor & Employment	1.41	1.51	2.01	3.19	2.33	2.39	69.0
Housing & Community Devt.	1.40	1.28	6.89	19.19	5.03	0.00	-100.0
Social Security & Welfare	38.87	38.26	22.52	40.49	19.61	47.65	22.6
<b>General Public Services</b>	<b><u>157.46</u></b>	<b><u>164.18</u></b>	<b><u>160.23</u></b>	<b><u>179.54</u></b>	<b><u>186.94</u></b>	<b><u>174.79</u></b>	<b><u>11.0</u></b>
<b>Other Services</b>	<b><u>58.40</u></b>	<b><u>41.47</u></b>	<b><u>73.94</u></b>	<b><u>82.51</u></b>	<b><u>74.96</u></b>	<b><u>47.13</u></b>	<b><u>-19.3</u></b>
	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>Average 2003-08</u></b>
<b>B. Percent Distribution</b>							
<b>Expenditures</b>	<b><u>100.0</u></b>						
<b>Economic Services</b>	<b><u>31.0</u></b>	<b><u>26.8</u></b>	<b><u>26.4</u></b>	<b><u>21.4</u></b>	<b><u>20.0</u></b>	<b><u>13.2</u></b>	<b><u>23.1</u></b>
Agriculture & Agrarian Reform	4.6	4.9	4.5	4.2	4.8	5.8	4.8
Environment & Natural Resources	0.1	0.2	0.2	0.2	0.2	0.3	0.2
Industry, Trade & Tourism	1.6	1.2	1.5	1.4	1.6	0.6	1.3
Transport & Communication	24.7	20.5	20.2	15.7	13.3	6.3	16.8
<b>Social Services</b>	<b><u>36.2</u></b>	<b><u>40.0</u></b>	<b><u>37.6</u></b>	<b><u>43.6</u></b>	<b><u>41.9</u></b>	<b><u>49.5</u></b>	<b><u>41.5</u></b>
Education & Manpower Devt.	4.9	5.2	5.1	9.1	6.1	3.7	5.7
Health & Nutrition	24.9	28.2	27.7	26.1	31.9	37.3	29.4
Labor & Employment	0.2	0.2	0.3	0.4	0.3	0.4	0.3
Housing & Community Devt.	0.2	0.2	1.1	2.6	0.7	0.0	0.8
Social Security & Welfare	5.9	6.2	3.5	5.4	2.9	8.0	5.3
<b>General Public Services</b>	<b><u>24.0</u></b>	<b><u>26.5</u></b>	<b><u>24.6</u></b>	<b><u>24.0</u></b>	<b><u>27.2</u></b>	<b><u>29.4</u></b>	<b><u>25.9</u></b>
<b>Other Services</b>	<b><u>8.9</u></b>	<b><u>6.7</u></b>	<b><u>11.3</u></b>	<b><u>11.0</u></b>	<b><u>10.9</u></b>	<b><u>7.9</u></b>	<b><u>9.5</u></b>

*Source of Basic Data: Provincial Treasurer's Office, Province of Pampanga.*

Figure 2  
Total Expenditures of Pampanga (2003-2008)



Further, the unemployment rate for Pampanga in 2006 of 17.1 percent exceeded both the national average and that of the provinces in the Reference Group.<sup>8</sup> With little funding for labor and housing programs in 2007 and 2008, the unemployment and housing situations in Pampanga are expected to get worse, imposing undue burden to low-income families and other disadvantaged groups.

Although spending for economic services ranked only third in terms of percentage share to total expenditures, this spending category is one of the most critical area of government activity at the local level. Funding for this sector is earmarked for agriculture and agrarian reform, environment and natural resources, industry, trade and tourism, and transport and communications.

Unfortunately, this sector took the biggest brunt of the expenditure cuts in 2007 and 2008 in absolute amounts, with 2008 spending about 62 percent lower than its 2003 level. Expenditures for transportation, also known as infrastructure spending, and telecommunications historically accounted for the bulk of economic services expenditures, but its share has dipped from around 80 percent of total economic services expenditures in 2003 to less than 50 percent in 2008. Transportation and communication expenditures posted almost successive yearly reduction in absolute spending levels since 2003. Its contribution to total provincial expenditures dropped from a high 24.7 percent share in 2003 to only 6.3 percent in 2008.

Such expenditure trend is a cause of concern because it means that highly productivity-enhancing expenditures that have a high multiplier effect on income and employment are receiving lower priority in the provincial budget. Given that the Local Government Code accords to LGUs the primary responsibility for the construction and maintenance of provincial roads, bridges, and other infrastructure facilities as well as telecommunication services, the province may suffer adverse long term consequences because of this trend in terms of lower productivity and general lack of competitiveness in attracting businesses and residents to the locality.

Among the various functional sectors, general public services which include expenditures for the administrative cost of government operations and maintenance of peace and order, registered the least dramatic fluctuations in terms of absolute levels and growth rates, managing to post an increase of 11 percent between 2003 and 2008. As a consequence, its share to total expenditures averaged to around 26 percent during the period, making it the second largest recipient of government spending for the province.

On the other hand, other expenditures declined by 19.3 percent between 2003 to 2008 and contributed an average of 9.5 percent of total expenditures.

### **Expenditures by Object**

Like the sectoral distribution of expenditures, the growth of expenditures for current operations and capital outlays did not show a consistent trend during the period under study (Table 11).

Allocations for salaries of provincial personnel decreased slightly in absolute terms from 2003 to 2004. It then grew at a

moderate pace yearly till 2007 and then turned almost flat in 2008. Maintenance and other operating expenses trended upwards until 2006 but suffered over 50 percent reversals in 2007 and 2008 from prior year levels. Capital outlays registered a sharp decline of about 66 percent in 2004 from its 2003 level, and then rose by an average of 46 percent yearly until 2007 after which it dipped again by about 6 percent in 2008.

Given these growth pattern, expenditures for personal services in Pampanga climbed to 58.3 percent of total expenditures in 2007 and to 68.5 percent of expenditures in 2008, from an average of 51 percent in the preceding four years. This higher share of personal services spending to total expenditures in recent years is expected because salaries and benefits of government employees are the highest priority expense items of any government. This implies that much of the expenditure cuts in 2007 and 2008 have been absorbed by maintenance expenditures and capital outlays, and to a lesser extent by the retrenchment of casual and contractual provincial government personnel.

MOOE fell to only 10.3 percent of total spending in 2008 from 30.3 percent in 2003, 37.6 percent in 2005, and 22.2 percent in 2007. Such fluctuation in spending rate may be due in part to some reclassification of accounts between personal services and maintenance and other operating expenditures implemented by the provincial government in 2007 and 2008. However, in the light of the reduction in education, housing and infrastructure expenditures discussed above, the declining share of MOOE to total expenditures may also reflect some significant slippage in the quantity and quality of basic frontline services provided to the community.

**Table 11**  
**Expenditures by Object for Pampanga**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<b>Growth Rate 2003-08</b>
<b>A. Amounts (in million pesos)</b>							
<b>Total Expenditures</b>	<b><u>657.29</u></b>	<b><u>619.82</u></b>	<b><u>652.06</u></b>	<b><u>748.64</u></b>	<b><u>687.06</u></b>	<b><u>593.69</u></b>	<b><u>-9.7</u></b>
<b>Current Operating Expenditures</b>	<b><u>531.54</u></b>	<b><u>576.92</u></b>	<b><u>591.69</u></b>	<b><u>659.42</u></b>	<b><u>553.32</u></b>	<b><u>467.64</u></b>	<b><u>-12.0</u></b>
Personal Services	332.42	329.13	346.73	353.77	400.66	406.64	22.3
Maintenance & Other Operating Expenses	199.12	247.79	244.96	305.65	152.66	61.00	-69.4
<b>Capital Outlays</b>	<b><u>125.75</u></b>	<b><u>42.90</u></b>	<b><u>60.37</u></b>	<b><u>89.22</u></b>	<b><u>133.74</u></b>	<b><u>126.05</u></b>	<b><u>0.2</u></b>
<b>B. Percent Distribution</b>							
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<b>Average 2003-08</b>
<b>Total Expenditures</b>	<b><u>100.0</u></b>						
<b>Current Operating Expenditures</b>	<b><u>80.9</u></b>	<b><u>93.1</u></b>	<b><u>90.7</u></b>	<b><u>88.1</u></b>	<b><u>80.5</u></b>	<b><u>78.8</u></b>	<b><u>85.3</u></b>
Personal Services	50.6	53.1	53.2	47.3	58.3	68.5	55.2
Maintenance & Other Operating Expenses	30.3	40.0	37.6	40.8	22.2	10.3	30.2
<b>Capital Outlays</b>	<b><u>19.1</u></b>	<b><u>6.9</u></b>	<b><u>9.3</u></b>	<b><u>11.9</u></b>	<b><u>19.5</u></b>	<b><u>21.2</u></b>	<b><u>14.7</u></b>
<b>C. Ratio of Personal Services to Regular Income in Previous Year</b>							
	<u>44.2</u>	<u>44.2</u>	<u>48.0</u>	<u>44.2</u>	<u>42.9</u>	<u>36.9</u>	<u>43.4</u>

Source of Basic Data: Provincial Treasurer's Office, Province of Pampanga.

It should be noted that the Local Government Code imposes a ceiling on personal services expenditures of LGUs of between 45 to 55 percent of their regular income in the preceding year. First class provinces like Pampanga have a ceiling of 45 percent of their prior year's regular income, while second and third class provinces have a higher ceiling of 50 to 55 percent. Table 11 shows that Pampanga operates on the whole within the mandated cap. Nevertheless, the 36.9 percent personal services ratio in 2008 appears low in terms of utilization rate and suggests the need of raising this ratio closer to historical levels.

On the other hand, while the share of capital outlays to total expenditures followed an increasing trend since 2004, its contribution of 21.2 percent of total expenditure in 2008 is only marginally higher than its 19.1 percent share in 2003. Since Pampanga's population grew at a faster rate than its capital outlays, per capita capital outlays decreased markedly during the period. This observation is critical because under the Local Government Code, provinces are responsible not only for the provision of province-wide infrastructures and telecommunication facilities, but also of inter-municipal water supply, flood control, and irrigation facilities, provincial hospitals,

provincial buildings and parks, and other public works projects with a province-wide catchment area. A deteriorating trend in per capita capital outlays indicates that these facilities are not being adequately provided and could well translate into lower rates of growth for the province given the strong linkage between capital investment spending and economic growth.

### **Comparative Analysis of Expenditures**

When compared to the provinces in the Reference Group (Table 12), Pampanga's per capita expenditure is significantly lower, accounting for only about two-thirds or 64.1 percent of the group's average per capita expenditures from 2003 to 2007. The low spending rate compared to other provinces is reflected in all expenditure sectors and supports the earlier observation that Pampanga is a low spending province.

General public services and economic services are the expenditure sectors in which Pampanga considerably lags behind other provinces, spending only slightly more than one-half of the Reference Group's average expenditure level during the period. In social services and other services, Pampanga's spending rates are comparatively higher at 73.5 percent and 81.6 percent respectively of the average expenditures in other jurisdictions. Education is another critical area in which Pampanga clearly underspent the other provinces with outlays reaching only 45.7 percent of the Reference Group's outlays.

In terms of ranking of major spending categories, the expenditure priorities of Pampanga hew closely to that of the Reference Group with the social services sector taking the biggest expenditure allocation, followed by general public services, and economic services. Still, during the period, Pampanga allocated about 40

percent of total expenditures to social services compared to a 34.8 percent share in the Reference Group, reflecting the higher priority that Pampanga assigns to this sector particularly healthcare.

Meanwhile, the deceleration of Pampanga's economic development expenditures is evident in the declining percentage of Pampanga's spending for this sector relative to the Reference Group. From a high of 72 percent of the Reference Group's economic services expenditures in 2003, the ratio has persistently dropped year over year to only 45.5 percent in 2007. This spending pattern deserves closer study by the government because expenditures for this sector include infrastructure spending. If funding for this sector continues to fall behind the Reference Group's outlays, and in the light of the decreasing rate of education spending in the province, the potential adverse impact on productivity can be immense and can be a source of future disparities in economic development between Pampanga and other provinces.

A bright note in the overall lower spending rate of Pampanga relative to the Reference Group lies in the area of general public services. Expenditures for this sector cover the cost of operating the government bureaucracy at the provincial level plus police protection. In 2007, this amounted to P86.27 per capita in Pampanga or nearly half the P169.40 per capita general public services expenditures in the Reference Group. This amount translates to an average share of 25.2 percent of total expenditures for Pampanga from 2003 to 2007, compared to about 30 percent for the Reference Group. Assuming all other factors are the same, it appears that government operation in Pampanga is leaner, or at least, that the cost of government operation in Pampanga is lower than in other similarly-situated provinces in the country.

**Table 12**  
**Comparison of Per Capita Expenditures of Pampanga and Reference Group**

A. <u>Amounts</u> (in pesos)	<u>Pampanga</u>					<u>19 Other Provinces*</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Expenditures</b>	<b><u>326.96</u></b>	<b><u>302.41</u></b>	<b><u>312.20</u></b>	<b><u>351.82</u></b>	<b><u>317.07</u></b>	<b><u>477.47</u></b>	<b><u>458.35</u></b>	<b><u>483.84</u></b>	<b><u>551.41</u></b>	<b><u>549.03</u></b>
<b>Economic Services</b>	<b><u>101.34</u></b>	<b><u>81.03</u></b>	<b><u>82.57</u></b>	<b><u>75.31</u></b>	<b><u>63.27</u></b>	<b><u>140.81</u></b>	<b><u>125.74</u></b>	<b><u>133.59</u></b>	<b><u>146.60</u></b>	<b><u>138.96</u></b>
<b>Social Services</b>	<b><u>118.24</u></b>	<b><u>121.04</u></b>	<b><u>117.51</u></b>	<b><u>153.36</u></b>	<b><u>132.93</u></b>	<b><u>166.32</u></b>	<b><u>178.35</u></b>	<b><u>170.73</u></b>	<b><u>181.45</u></b>	<b><u>176.73</u></b>
Education & Manpower Development	16.12	15.60	15.89	31.89	19.43	35.85	42.13	49.95	44.71	44.91
Health & Nutrition	81.38	85.42	86.57	91.92	101.06	89.05	101.49	89.16	93.02	97.66
Labor & Employment	0.70	0.74	0.96	1.50	1.07	0.12	0.40	0.60	0.65	0.67
Housing & Community Development	0.70	0.62	3.30	9.02	2.32	13.83	6.10	11.10	13.11	11.53
Social Security & Welfare	19.34	18.67	10.78	19.03	9.05	27.47	28.22	19.92	29.95	21.96
<b>General Public Services</b>	<b><u>78.33</u></b>	<b><u>80.11</u></b>	<b><u>76.72</u></b>	<b><u>84.38</u></b>	<b><u>86.27</u></b>	<b><u>143.10</u></b>	<b><u>129.18</u></b>	<b><u>141.38</u></b>	<b><u>170.75</u></b>	<b><u>169.40</u></b>
<b>Other Services</b>	<b><u>29.05</u></b>	<b><u>20.23</u></b>	<b><u>35.40</u></b>	<b><u>38.78</u></b>	<b><u>34.59</u></b>	<b><u>27.24</u></b>	<b><u>25.07</u></b>	<b><u>38.15</u></b>	<b><u>52.62</u></b>	<b><u>63.94</u></b>
	<b><u>Pampanga/19 Other Provinces</u></b>									
<b>B. <u>Ratios</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>Average 2003-07</u></b>				
<b>Expenditures</b>	<b><u>0.685</u></b>	<b><u>0.660</u></b>	<b><u>0.645</u></b>	<b><u>0.638</u></b>	<b><u>0.578</u></b>	<b><u>0.641</u></b>				
<b>Economic Services</b>	<b><u>0.720</u></b>	<b><u>0.644</u></b>	<b><u>0.618</u></b>	<b><u>0.514</u></b>	<b><u>0.455</u></b>	<b><u>0.590</u></b>				
<b>Social Services</b>	<b><u>0.711</u></b>	<b><u>0.679</u></b>	<b><u>0.688</u></b>	<b><u>0.845</u></b>	<b><u>0.752</u></b>	<b><u>0.735</u></b>				
Education & Manpower Development	0.450	0.370	0.318	0.713	0.433	0.457				
Health & Nutrition	0.914	0.842	0.971	0.988	1.035	0.950				
Labor & Employment	6.096	1.820	1.617	2.297	1.599	2.686				
Housing & Community Development	0.050	0.102	0.297	0.688	0.201	0.268				
Social Security & Welfare	0.704	0.661	0.541	0.635	0.412	0.591				
<b>General Public Services</b>	<b><u>0.547</u></b>	<b><u>0.620</u></b>	<b><u>0.543</u></b>	<b><u>0.494</u></b>	<b><u>0.509</u></b>	<b><u>0.543</u></b>				
<b>Other Services</b>	<b><u>1.067</u></b>	<b><u>0.807</u></b>	<b><u>0.928</u></b>	<b><u>0.737</u></b>	<b><u>0.541</u></b>	<b><u>0.816</u></b>				

\*2008 expenditures for the Reference Group are not available. Expenditures are net of debt service.

Source of Basic Data: Provincial Treasurer's Office, Province of Pampanga.  
Bureau of Local Government Finance.

## Real Expenditures

When the effects of price increases are removed from actual expenditures, the data from 2003 to 2008 showed that not only was real expenditure per person lower in Pampanga in 2008 than in 2003 but that it was lower by a staggering 38.6 percent of its 2003 level (Table 13). Hence, the province was actually providing much less resources to each resident by way of public services in

2008 than in it did six years before. The four major expenditure sectors, particularly economic services and general public services, showed a persistent reduction in absolute levels of real expenditures since 2003. Furthermore, nearly all spending subsectors registered negative growth rates yearly, highlighting the fact that most of the gains in expenditures discussed previously were due to price increases and not to any expansion of inputs for basic services.

**Table 13**  
**Per Capita Real Expenditures of Pampanga in 2000 Prices**

(Amounts in pesos)	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	Growth Rate <u>2003-08</u>
<b>Expenditures</b>	<b><u>283.91</u></b>	<b><u>244.13</u></b>	<b><u>234.31</u></b>	<b><u>252.49</u></b>	<b><u>223.72</u></b>	<b><u>174.38</u></b>	<b><u>-38.6</u></b>
<b>Economic Services</b>	<b><u>87.67</u></b>	<b><u>64.77</u></b>	<b><u>61.44</u></b>	<b><u>53.87</u></b>	<b><u>44.65</u></b>	<b><u>23.05</u></b>	<b><u>-73.7</u></b>
Agriculture & Agrarian Reform	12.93	11.83	10.53	10.50	10.75	10.22	-20.9
Environment & Natural Resources	0.41	0.53	0.48	0.51	0.46	0.61	49.5
Industry, Trade & Tourism	4.61	2.97	3.47	3.46	3.68	1.13	-75.4
Transport & Communication	69.73	49.44	46.95	39.40	29.76	11.10	-84.1
<b>Social Services</b>	<b><u>102.28</u></b>	<b><u>96.76</u></b>	<b><u>87.43</u></b>	<b><u>109.70</u></b>	<b><u>93.81</u></b>	<b><u>86.59</u></b>	<b><u>-15.3</u></b>
Education & Manpower Devt.	13.95	12.47	11.83	22.81	13.71	6.49	-53.5
Health & Nutrition	70.40	68.28	64.41	65.75	71.32	65.34	-7.2
Labor & Employment	0.61	0.59	0.72	1.07	0.76	0.70	15.8
Housing & Community Devt.	0.60	0.50	2.45	6.45	1.64	0.00	-100.0
Social Security & Welfare	16.73	14.92	8.02	13.61	6.39	14.05	-16.0
<b>General Public Services</b>	<b><u>68.83</u></b>	<b><u>66.42</u></b>	<b><u>59.10</u></b>	<b><u>61.19</u></b>	<b><u>60.84</u></b>	<b><u>50.84</u></b>	<b><u>-26.1</u></b>
<b>Other Services</b>	<b><u>25.13</u></b>	<b><u>16.17</u></b>	<b><u>26.34</u></b>	<b><u>27.74</u></b>	<b><u>24.41</u></b>	<b><u>13.90</u></b>	<b><u>-44.7</u></b>

Although data on real expenditures are not available for the Reference Group, the average Consumer Price Index mentioned in Table 1 for other provinces was lower than the CPI of Pampanga in each of the years surveyed. Combined with the earlier finding that per capita expenditure in the Reference Group was much higher than in Pampanga, this suggests that, on average, real expenditure per person in Pampanga was

lower than in the Reference Group during the period covered.

## Expenditure Needs

A major objective of expenditure analysis is to determine the pressures on the government for additional expenditures.

*Needs and province-level expenditure.* The expenditure analysis above showed that

Pampanga's per capita expenditures in nominal and real terms are much lower than the average expenditures of the Reference Group. This situation in itself may require higher expenditures for Pampanga for it may imply that prevailing expenditure levels are less than adequate. However, to fully understand the extent of expenditure pressures that the provincial government faces, Pampanga's per capita expenditures must be compared with the needs of the community and the extent to which these needs are satisfied. Often, substantial unmet needs induce a government to increase its budget to meet these needs and, in the face of resource constraints, this may lead to a worsening of its financial condition. On the other hand, a high needs satisfaction results to less expenditure pressures and, all else being equal, tends to strengthen financial condition.

Table 14 contains some important indicators of community needs that are available for Pampanga and the Reference Group. A fair evaluation of the various needs indices gives a mixed picture of the level of needs satisfaction in Pampanga vis-a-vis the Reference Group. In many important measures such as per capita income, underemployment rate, poverty incidence, health status of children, crime rate, and HDI, Pampanga fared much better than the other provinces, indicating a high satisfaction of needs. There is likewise a perceivable improvement of Pampanga's performance in the various needs indicators in 2006 compared to earlier years.

Real per capita income in Pampanga is much higher than in other provinces and has been growing at a more robust rate than in these provinces. From P28,109 per capita in 2000 which was 9.4 percent higher than that of the Reference Group, Pampanga's real per capita income increased to P30,647 in 2006 or 31 percent more than the P23,400 real per capita income earned in other provinces.

With rising per capita income, the poverty incidence in the province has fallen dramatically to 5.1 percent in 2006 or less than one-fifth of the 27.6 percent average poverty rate in the Reference Group for that year. The poverty rate in Pampanga has been declining since 2000 while the rate in the Reference Group has been rising. Thus, on the basis of these two key income measures, standard of living in Pampanga is much higher than in other provinces.

Given the high priority that it places on healthcare, it is not surprising that this is another area in which Pampanga has surpassed the Reference Group. The percentage of underweight children is significantly lower in Pampanga (0.6 percent) than in the Reference Group (1.6 percent). Health facilities as measured by the number of barangay health stations and access to safe drinking water and sanitary toilets are more readily available in Pampanga than in other provinces. Partly because of these, life expectancy is higher in Pampanga by an average of about three years, indicating greater access to quality health care in the province.

In education, Pampanga's performance is at par if not better than the provinces in the Reference Group. This is evident in all seven education indicators – high school graduate ratio, primary and secondary enrollment rate, teacher-pupil and teacher-student ratios, classroom-pupil and classroom-student ratios, and cohort survival rate in public elementary schools – despite the relatively low share of education spending to total provincial expenditures. In fact, in terms of the high school graduate ratio Pampanga ranked ninth in 2006 among all 77 provinces in the entire Philippines, reflecting a higher rate of adult literacy in the province.<sup>9</sup> Similarly, crime rate appears to be less of a problem in Pampanga than in other provinces.

**Table 14**  
**Measures of Expenditure Needs**

	<u>Most Recent Data</u>			<u>Earlier Data</u>			<u>Earlier Data</u>		
	<u>Pampanga</u>	<u>Ave 19 Prov.</u>	<u>Pamp./A19P</u>	<u>Pampanga</u>	<u>Ave. 19 Prov.</u>	<u>Pamp./A19P</u>	<u>Pampanga</u>	<u>Ave. 19 Prov.</u>	<u>Pamp./A19P</u>
<b>Population Density</b> , 2007, 2003, 2001	1049	584	1.796	947	489	1.937	887	472	1.879
<b>Life Expectancy at Birth</b> , 2006, 2003, 2000	72.4	70.0	1.034	71.7	68.8	1.042	71.0	68.1	1.043
<b>Unemployment Rate</b> , 2006, 2003, 2000	17.1	9.9	1.727	13.2	10.3	1.282	11.5	10.3	1.117
<b>Underemployment Rate</b> , 2006, 2003, 2000	8.0	21.3	0.376	8.7	15.9	0.547	12.8	20.2	0.634
<b>Crime Rate</b>									
Total Crime Per 100,000 Population, 2007, 2003	38	51	0.745	55	81	0.683	-	-	-
% of Solved Crimes, 2007, 2003, 2002	84.5	89.5	0.944	82.5	93.1	0.886	88.4	91.8	0.963
<b>Education</b>									
Primary & HS Enrollment Rate, 2004, 2002, 1999	88.6	87.8	1.009	92	90.4	1.018	91.3	90.5	1.009
Percent of High School Graduate	65.3	56.2	1.162	57.4	49.8	1.153	53.4	48.2	1.108
Teacher-Pupil Ratio in Public Elem. Schools, 2006, 2003, 2001	36	37	0.969	35	37	0.946	36	38	0.947
Teacher-Student Ratio in Public Sec. Schools, 2006, 2003, 2001	42	41	1.015	44	45	0.978	42	43	0.977
Classroom-Pupil Ratio in Public Elem. Schools, 2006, 2004	38	37	1.020	37	38	0.974	-	-	-
Classroom-Student Ratio in Public Sec. Schools, 2006, 2004	60	55	1.086	63	60	1.050	-	-	-
Cohort Survival Rate in Public Elementary Schools, 2006, 2003	72.6	67.4	1.076	68.8	67.3	1.022	-	-	-
<b>Health</b>									
No. of Doctors Per 100,000 Population, 2006, 2003	3	3	1.056	2	3	0.667	-	-	-
% of Households with Access to Safe Water Supply, 2006, 2003	97.8	84.7	1.155	63.0	83.2	0.757	-	-	-
% of Households with Access to Sanitary Toilet, 2006, 2003	85.7	78.7	1.089	70.3	79.8	0.881	-	-	-
% Barangay Health Stations to Total Barangay 2006, 2003	88	57.1	1.542	83.3	51.6	1.614	190.6	49.5	3.851
% Underweight Children Under Age 5, 2006, 2002	0.6	1.6	0.369	2.8	4.9	0.571	-	-	-
<b>Energy</b>									
Percent of Energized Barangays, 2007, 2005	99.3	99.2	1.001	98	92.8	1.056	-	-	-
<b>Consumer Price Index</b> , 2008, 2006, 2003	141.7	139.5	1.016	139.8	134.1	1.043	115.6	112.3	1.029
<b>Money Income</b>									
Per Capita Real Income (1997 NCR Prices), 2006, 2003, 2000	30,647	23400	1.310	30,383	23956	1.268	28,109	25684	1.094
Poverty Incidence, 2006, 2003, 2000	5.1	27.6	0.185	6.0	26.9	0.223	7.6	24.5	0.310
<b>Human Development Index</b> , 2006, 2003, 2000	0.706	0.614	1.150	0.686	0.603	1.138	0.654	0.605	1.081

Sources: The Philippine Countryside in Figures 2001-2007, National Statistical Coordination Board.  
Philippine Human Development Report 2008/2009, Human Development Network.  
2000 Census-Based Population National, Regional and Provincial Projections, National Statistics Office.

Furthermore, the underemployment rate in Pampanga for the years surveyed, on average, was only about half of the underemployment rate in the Reference Group. In terms of HDI, Pampanga's performance has consistently exceeded the Reference Group; its HDI has been increasing at a faster rate than the group's HDI. Indeed, in 2003 and 2006, Pampanga placed sixth among all 77 provinces in the country in HDI ranking. Since the HDI is a measure of welfare, it can also be viewed as a measure of needs. Based on its HDI performance, it can be surmised that satisfaction of community needs in Pampanga is much higher than in most other provinces in the country including those in the Reference Group.

However, Pampanga fell behind the Reference Group in three vital measures – unemployment rate, population density, and inflation rate. Pampanga's unemployment rate has been accelerating since 2000, from 11.5 percent in that year, to 13.2 percent in 2003, to a high of 17.1 percent in 2006. In contrast, the unemployment rate in the Reference Group has been stable at around 10 percent, pointing to a widening gap in the unemployment rate between Pampanga and the other provinces. This situation, combined with the much higher population density in Pampanga, translates to a much greater demand for many public services including housing, healthcare, education and social welfare. It is worthwhile noting that the high unemployment rate in Pampanga occurs in the face of high real per capita income and low poverty rate in the province, indicating the absence of a straightforward relationship between unemployment, per capita income, and poverty.

The inflation rate in Pampanga (as measured by the CPI) is another expenditure pressure that is higher than the average rate for the other provinces. All else being equal, high and rising prices increase the demand for government expenditures in order to

maintain the quantity and quality of public services at current levels.

The analysis of the expenditure needs above showed that for most measures of community needs, Pampanga has a relatively high satisfaction of needs, and therefore lower demand for government expenditures compared to the provinces in the Reference Group. These needs indicators, however, are based on 2006 data and may therefore mask the real extent of the community needs of the province at the present. Specifically, they failed to incorporate the debilitating effects on the local economy of the 2007 global financial crisis as well as the series of typhoons that struck the country including Pampanga in 2007 and 2008.

Apart from raising the unemployment rate, these events would likely lower per capita incomes and increase the poverty rate in Pampanga, imposing a much greater demand for public goods and services like education, healthcare and housing and for physical infrastructures such as roads, bridges, water supply, dikes and other flood control facilities. Although these events may have affected other provinces as well, when combined with the sharp contraction in government expenditures that occurred in Pampanga in 2007 and 2008, the resulting picture is a province with a much higher level of unmet needs than what the 2006 indicators would suggest.

***Needs and expenditures across levels of local governments.*** Given Pampanga's extreme position in spending rate relative to other provinces, there seems to be a large disconnect between the relatively high needs satisfaction in the province and its low spending level. It is therefore worthwhile to compare the total provincial, city and municipal expenditures of the entire province of Pampanga with the total expenditures for all levels of LGUs in the other provinces as well. This will reveal whether the low spending rate in Pampanga at the provincial level is offset by higher spending at the city

and municipal levels, and will help explain the relatively high needs satisfaction in the province (Table 15).

**Table 15**  
**Total Per Capita Expenditures for All-Levels Of Government**  
**(Province, Cities & Municipalities), 2006**

(Amounts in pesos)	<b><u>Pampanga</u></b>	<b><u>19 Other Provinces*</u></b>	<b><u>Pampanga/19 Provinces (All LGUs Combined)</u></b>	<b><u>Pampanga/19 Provinces (Province-Level Only)</u></b>
<b>Expenditures</b>	<b><u>1,557</u></b>	<b><u>2,018</u></b>	<b><u>0.771</u></b>	<b><u>0.638</u></b>
<b>Economic Services</b>	<b><u>268</u></b>	<b><u>387</u></b>	<b><u>0.694</u></b>	<b><u>0.514</u></b>
<b>Social Services</b>	<b><u>432</u></b>	<b><u>471</u></b>	<b><u>0.916</u></b>	<b><u>0.845</u></b>
Education & Manpower Devt.	100	147	0.681	0.713
Health & Nutrition	194	202	0.962	0.988
Labor & Employment	10	1	6.483	2.297
Housing & Community Devt.	53	43	1.221	0.688
Social Security & Welfare	75	77	0.969	0.635
<b>General Public Services</b>	<b><u>523</u></b>	<b><u>853</u></b>	<b><u>0.613</u></b>	<b><u>0.494</u></b>
<b>Other Services</b>	<b><u>334</u></b>	<b><u>307</u></b>	<b><u>1.086</u></b>	<b><u>0.737</u></b>

\*Expenditures net of debt service.

Source of Basic Data: *BLGF*.

When expenditures for all levels of local governments are included, aggregate expenditures for Pampanga amounted to P1,557 per person in 2006 (the year when fiscal data for other cities and municipalities are available), or 77.1 percent of the P2,018 average per capita expenditures for the Reference Group. While this is clearly a higher spending rate than when only provincial-level operations are considered, combined provincial and local expenditures are still considerably lower in Pampanga than in other provinces, suggesting that local expenditures offset only to a limited extent the low provincial expenditures.

Pampanga still falls behind the other provinces in nearly all major expenditure sectors particularly economic services and general public services. A high 91.6 percent

accomplishment rate overall was registered for social services expenditures. However, combined education expenditure for Pampanga is still much lower at around 68 percent of the Reference Group's average education spending. This low rate of total education outlays is unexpected since funds for this purpose are automatically earmarked from the respective LGU share of the Special Education Fund under the RPT and because the SEF has been growing in the past years. Moreover, construction of school buildings which is a major expense item from this source has been delegated to local government units by the Local Government Code so a much higher fund utilization rate is expected.

Based on Pampanga's needs profile discussed above and its below average

spending pattern, this implies that there will be pressures on the government to increase its expenditures in the future. A higher spending rate is called for both to cushion the adverse effect of the global recession on the local economy and also to finance the rehabilitation work necessitated by recent

natural calamities that devastated the province. There will also be expenditure pressures as Pampanga competes with other provinces in attracting new businesses and because the entry of new businesses and residents will increase the demand for government services.

## VI. MEASURES OF FINANCIAL CONDITION

The state of a government's financial health hinges largely on its ability to balance its resources with the demands for expenditures against those resources. Table 16 shows the total receipts and expenditure

levels for the Province of Pampanga from 2003 to 2008. Total receipts exceeded aggregate expenditures in each of the six years covered which resulted to a budget surplus in each year.

**Table 16**  
**Summary of Receipts and Expenditures and Operating Ratios for Pampanga**

(Amounts in million pesos)	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Receipts	744.23	721.77	799.61	934.29	1,102.60	1,127.94
Expenditures	657.29	619.82	652.06	748.64	687.06	593.69
Excess (Deficit) of Receipts Over						
Expenditures	86.94	101.95	174.55	185.65	415.54	534.25
<b>Ratio of Total Receipts to Expenditures</b>	<b>1.13</b>	<b>1.16</b>	<b>1.23</b>	<b>1.25</b>	<b>1.60</b>	<b>1.90</b>
<b>Ratio of Own-Source Revenues to Expenditures</b>	<b>0.13</b>	<b>0.14</b>	<b>0.18</b>	<b>0.18</b>	<b>0.27</b>	<b>0.33</b>

Two ratios found in Table 16 that are often used to evaluate an organization's financial health are: (1) the ratio of the sum of locally sourced revenues and intergovernmental transfers to total expenditures; and (2) the ratio of locally sourced revenues to total expenditures. The first, also called operating ratio or revenue adequacy ratio, seeks to evaluate the adequacy of the government's resources to cover expenditures. It is a broad measure of budgetary solvency that includes in the numerator all receipts available to the LGUs

from internal and external sources. The second ratio measures the self-sufficiency of LGUs in financing local government expenditures. It zeroes in on the capacity of internally generated revenues such as taxes, user fees and charges, and other non-tax revenues, to support expenditures. Since these revenues are considered more stable and controllable by the government than revenues from intergovernmental grants, a higher self-sufficiency ratio demonstrates a higher level of budgetary solvency, and thus better financial condition (Wang, 2006).

The operating ratio for Pampanga is greater than one in each of the years included in the study. From 1.13, the operating ratio rose yearly to reach 1.25 in 2006 and then swelled to 1.60 and 1.90 in 2007 and 2008, respectively. These positive ratios may be attributed in part to the conservative fiscal attitude of most local governments like Pampanga, where expected expenditure levels are often dictated by estimated revenues.<sup>10</sup> The latter has also been influenced partly by the national government requirement that the total amount appropriated in LGU budgets must not exceed the estimated income certified collectible by local treasurers. Because of these, in Pampanga as in most LGUs, receipts tend to drive expenditures rather than the other way around.

The increase in Pampanga's operating ratio from 2003 to 2006 was propelled primarily by the growth in tax revenues and the IRA. On the other hand, deep cuts in expenditure levels in 2007 and 2008 caused the operating ratio to surge during these years. It is worth noting that an operating ratio that is greater than one may at face value imply good financial condition because

it shows that the government has adequate resources to pay its bills. However, abnormally high operating ratios like those obtained by Pampanga in 2007 and 2008, may also indicate bad financial management when these are achieved by drastic and uncalled for reductions in the delivery of basic services. With population growth and rising prices, the latter will likely exert strong pressure for higher levels of government expenditures in the future, when revenue inflow is more uncertain. Thus, while the increase in Pampanga's operating ratio from 2003 to 2006 may manifest an improving financial condition, the spike in the ratio in 2007 and 2008 may signal a weakening of its financial condition.

On the other hand, Pampanga's own-source ratio shows that only 18 percent of expenditures on average is financed from indigenous sources.<sup>11</sup> This ratio is low compared to that of the Reference Group which averages 24 percent. It underscores the province's greater vulnerability on national government subsidies for financing its growth compared to other provinces. This situation negatively impacts Pampanga's financial condition.

## VII. CONCLUSION

### Results of Revenue Analysis

The revenue analysis discussed above showed that Pampanga's total receipts posted solid growth from 2003 to 2008, both in nominal peso and real terms. The increase in total receipts was driven by the expansion in locally generated tax revenues and in intergovernmental transfers. However, when compared to the average receipts of the 19 provinces in the Reference Group, Pampanga's revenue performance appears modest. The analysis also revealed that Pampanga has not fully utilized the expanded revenue-raising powers granted under the

1991 Local Government Code, as periodic rate adjustments authorized under the Code were not implemented.

The evaluation of Pampanga's revenue capacity further indicated that Pampanga has a greater potential to raise revenues from its own sources than the provinces in the Reference Group. The higher revenue capacity of Pampanga can be attributed to its having a more vibrant economy which is reflected in part by the higher real per capita income in the province than in other provinces.

The existence of a large revenue capacity in the face of low actual revenue collection

creates a substantial unused revenue capacity or reserves that the province can draw upon to finance future expenditures. Availability of this revenue reserves strengthens Pampanga's financial condition because it provides the province the flexibility to raise additional revenues to finance expenditure pressures without the need to cut the growth or level of actual expenditures or resort to borrowing.

### **Results of Expenditure Analysis**

The outcome of the expenditure analysis for Pampanga revealed expenditure levels that are alarmingly low when compared to historical rates and to the levels in other provinces. Aggregate expenditures declined in absolute level by 9.7 percent from 2003 to 2008. In addition, Pampanga's per capita spending was only about 64.1 percent of the Reference Group's per capita expenditures from 2003 to 2007.

This lackluster performance has undoubtedly been aggravated by the political gridlock that gripped the provincial capitol during the Panlilio administration. But even discounting for the recent decline in expenditures, the data likewise demonstrated that Pampanga is, by and large, a low expenditure province. Between 2003 and 2006 (the years prior to the Panlilio administration), per capita expenditures in Pampanga increased by 7.6 percent. During the same period, its per capita revenues expanded by 18.6 percent highlighting the overall lower level of expenditures vis-à-vis revenues.

Such low spending level may have a negative impact on economic efficiency and equity. Efficiency requires that available resources be used fully to provide for expenditures that yield maximum benefits to the public. Equity demands that an increasing

share of the government budget be allocated to redistribute incomes to the poor and disadvantaged members of society. Clearly, a low spending rate does not advance these objectives.

Such underspending particularly in 2007 and 2008 together with high rates of unemployment, population density, and inflation in Pampanga and the ill-effects of recent natural calamities that struck the province, would likely impose a much greater demand for essential services and increased levels of government expenditures in the province.

### **Financial Condition**

The above findings point to a financial condition that can potentially be strong but is marked by some instability. This situation can be gleaned from Pampanga's operating ratio which increased mildly from 2003 to 2006 but took a steep ascent in 2007 and 2008. Indeed, the combination of low expenditures and moderate revenues for Pampanga does not necessarily sum up to a strong financial condition. However, the province's ability to: 1) finance a higher level of expenditures from existing revenues, and 2) draw upon its unused revenue capacity or reserves, if needed, are positive factors that bolster its financial condition. A necessary first step to an improvement of Pampanga's financial health in the short-run would be to raise existing expenditure levels. This will enable the provincial government to somehow offset the shortfall in the provision of basic services that may have occurred in recent years. This will also ensure that minimum quality standards are adhered to in the delivery of government services and relieve pressures for a much higher level of government spending in the future.

## VIII. PRESCRIPTIONS FOR REFORM

### Expenditure Reform

There is an urgent need to raise Pampanga's overall expenditures to a level that brings it to greater balance with its revenues. A higher rate of government spending must be considered in four specific areas:

First is in economic services expenditure. Spending for this category posted a general downward trend as a percentage of total expenditures from 31 percent in 2003 to only 13.2 percent in 2008. Moreover, infrastructure spending which historically accounted for more than half of spending in this category, declined as a percentage of total expenditures to only 6.3 percent in 2008. Such expenditure trend is worrisome because it means that expenditures that have a high multiplier effect on income and employment are receiving lower priority in the provincial budget. If funding for this sector continues to shrink, and given the higher rate of spending for economic services in other provinces, this could potentially be a source of future disparities in economic development between Pampanga and the provinces in the Reference Group.

Second, increased spending must also be achieved in education, labor and employment, and housing and community development. A positive growth of outlays in these subsectors is critical in enhancing productivity, and together with increased infrastructure spending, is essential in promoting Pampanga's competitive position relative to other provinces.

Third, the decelerating trend of maintenance and other operating expenditures deserves closer study as this may be indicative of a growing slack in the provision of basic services to the community.

And fourth, there is a need to ascertain whether existing expenditures for capital outlays are adequate. Although Pampanga's

aggregate spending for capital outlays trended upwards from 2004 to 2007, per capita capital expenditures decreased between 2003 and 2008 indicating that public works and other capital facilities may not be sufficiently provided. This could well translate into lower rates of growth for the province in the future given the strong linkage between capital investment spending and economic growth.

### Revenue Reform

The results of the revenue analysis highlighted Pampanga's considerable ability to generate more revenues from its existing revenue bases. This will require a strong political will on the part of the provincial government to make full use of the revenue raising powers granted to local government units under the 1991 Local Government Code. By increasing its revenue effort, the province can become more financially self-reliant and thus could be weaned away from its heavy dependence on national government transfers for financing its development. The most urgent task is to undertake a revision of its local tax code to update tax rates and tax bases within the limits allowed by the Code.

In particular, the following specific reforms should be incorporated in the local tax code revision: 1) update the assessment levels for various types of real properties; 2) increase all allowable tax rates; 3) to the extent possible, convert all unit rates to percentage rates to make revenue collection more elastic; 4) simplify and enhance tax administration and compliance; and 5) impose stricter controls and heavier penalties on tax delinquencies and fraud.

In order to fast track the growth of real property taxes, a general revision of the schedule of market values of real properties must be implemented immediately, and the periodic updating of market values every

three years enforced to keep the tax base buoyant. Furthermore, the slide in the RPT collection rate in recent years must be reversed by improving the existing tax payment monitoring system and by stricter implementation of penalties for non-payment of taxes. This requires expediting the full computerization of Pampanga's tax collection machinery. Given Pampanga's low RPT collection rate relative to other provinces, the institution of these reform measures could make the RPT a bigger source of future revenues than it has been in the past.

Similarly, the present quarry tax rate of P300 per truck regardless of quarry resources extracted should be increased to enhance revenue inflow. The use of a percentage tax (instead of a unit tax) levied against the market value of quarry resources obtained, will maximize the revenue intake from this source. This may require imposing different tax rates depending on the type of quarry resource obtained.

Finally, given its sluggish collection record for non-tax revenues, the province should increase the various service fees and user charges that it collects, as a way of mobilizing more local revenues. While the bulk of user charges for Pampanga is derived

from the operating income of the 10 district hospitals that it operates, and equity consideration could have kept the rates stagnant, some increase in service fees and charges may be necessary to improve service provision. Since LGUs enjoy a much greater autonomy in setting user fees and charges, the latter potentially represents another major source of revenues for the province. Moreover, because the link between service provided and fees charged is direct, increasing the rates of user charges would be politically and administratively easier than raising taxes (Manasan, 1992).

If the Province of Pampanga desires to bring about more effective service to its constituencies, it must raise more revenues and use these resources more efficiently. To achieve this, the province, among other measures, needs only to look at its recent success in quarry operations. In 2007, the provincial government mustered the political will to institute long-needed reforms in fiscal management and accountability that resulted to a dramatic turnaround in revenues. By initiating like programs, the Province of Pampanga can improve its financial condition and at the same time institutionalize good governance.

## NOTES

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<sup>1</sup> For the conceptual development of this approach, see Berne & Schramm (1986).

<sup>2</sup> See similar studies for the states of New York and California by Robert Berne and Matthew Drennan.

<sup>3</sup> The Bureau of Local Government Finance, under the Department of Finance, classifies first class provinces as those with total receipts (covering locally-generated revenues and financial transfers from the national government) of P350 million and above annually. During the period of the study, Pampanga has consistently been on the annual top 20 list of first class provinces. The list changes slightly every year as provinces are added and deleted from the list depending on their resource inflow.

<sup>4</sup> Per the Provincial Treasurer's Office of Pampanga, these figures include both the share of the provincial government and those of municipalities and barangays within the province that participate in quarry operations.

<sup>5</sup> All comparison between the revenue and expenditure performance of Pampanga and the Reference Group covers only the years 2003 to 2007 since fiscal data for the Reference Group in 2008 were not available at the time of the study.

- <sup>6</sup> Per BLGF data, the per capita assessed value of real properties in Pampanga from 2003 to 2007 averaged only to about 37 percent of the Reference Group's per capita assessed value for the same period.
- <sup>7</sup> For estimates of ACIR fiscal capacity, see ACIR, *Measuring state fiscal capacity: Alternative methods and their uses* (1986).
- <sup>8</sup> In 2006, the unemployment rate was 11.0 percent for the entire Philippines and 9.9 percent for the Reference Group.
- <sup>9</sup> For more information of provincial performance on selected indicators of human development, see Human Development Network, *The Philippine Human Development Report 2008/2009*, (HDN, 2009).
- <sup>10</sup> This fiscal conservatism is also evidenced by the fact that LGUs have borrowed very little to finance capital projects (Diokno, 2003).
- <sup>11</sup> The 18 percent ratio represents the average annual rate for Pampanga from 2003 to 2007 only, to make it comparable to the average own-source ratio for the Reference Group which covers only these years.

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