

# Chapter 3

## ANALYSIS OF LOCAL FISCAL CAPABILITY

Assessment of the financing capacity of LGUs is essential for drawing out the need of LGUs to generate additional resources that would allow them to fund and implement the priority programs and projects they have identified as critical to their development. To determine the LGU's financing capacity, an assessment of the revenue performance of the city for the last three years as well as spending pattern was done.

### 3.1 Past Revenue Generation

As the city's Socio-Economic Profile in 2008 indicates, the city government's sources of revenues are mainly traditional ones like real property tax, business tax, amusement tax, community tax, franchise tax, occupation tax, property transfer tax, etc.

Table 3-1 shows the income/revenue by source of the city from 2005 to 2007. A look at the record of receipts shows the city's income as increasing with the city's IRA and locally-generated revenues providing for an almost equal share of the income in 2007. In terms of trend, however, while IRA is increasing in absolute terms, its rate of growth as well as share to total income is, nonetheless, decreasing. On the other hand, the same record shows an expanding contribution of locally-generated revenues both in

absolute terms and growth rate. In fact, in 2007, the share of locally-sourced revenue already exceeded that of IRA.

**Table 3-1 Distribution of Income/Revenue by Source, 2005-2007**

<b>Source</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Actual IRA	268,050,281.00	320,040,462.00	322,614,150.00
Locally Source	214,573,571.00	257,468,406.49	340,042,641.15
Other Sources	27,366,021.00	90,541,872.99	77,428,433.77
<b>Total</b>	<b>509,989,873.00</b>	<b>668,050,741.48</b>	<b>740,085,224.92</b>

Source: Angeles City SEP, 2008

## 3.2 Past Expenditure Pattern

Expenditure refers to the spending pattern of an LGU. This went down from about PhP666 million in 2005 to PhP641 million in 2006, then shoot up again to about PhP716 million in 2007 (Table 3-2).

### 3.2.1. Expenditure By Object

Except for 2005, administrative support expenditures got the biggest slice of the budget among expenditure items in 2006 and 2007. This is followed by social services which accounts for a little more than a third of total expenditure and then by economic development. Governance and environmental management had a combined share of around 10 percent.

Table 3-2 Actual Expenditures by Object, 2005-2007

Object of Expenditure	2005	% Share	2006	% Share	2007	% Share
Governance	23,181,334.00	3.48	26,723,865.79	4.17	44,395,951.82	6.20
Administration	159,893,413.00	24.00	316,335,321.82	49.35	329,282,845.80	46.00
Social Services	252,560,561.00	37.92	215,912,932.53	33.69	239,734,840.37	33.49
Economic Development	201,438,710.00	30.24	27,184,166.65	4.24	79,685,340.34	11.13
Environmental Management	29,022,824.00	4.36	54,801,873.82	8.55	22,802,876.53	3.19
<b>Total</b>	<b>666,098,847.00</b>	<b>100</b>	<b>640,960,166.61</b>	<b>100</b>	<b>715,901,854.86</b>	<b>100</b>

Source: Angeles City SEP, 2008

### 3.2.2. Expenditure By General Account

General Account is divided into three: (i) Personnel Services (PS); (ii) Maintenance and Other Operating Expenditures (MOOE); and, (iii) Capital Outlay (CO).

Table 3-3 shows that MOOE and Personnel Services make up for bulk (90 percent) of the city expenditure, while Capital Outlay accounts for the other 10 percent. Of the three, however, MOOE eats up the biggest share with about half of total expenditure.

**Table 3-3 Actual Expenditures by General Account, 2005-2007**

General Account	2005	% Share	2006	% Share	2007	% Share
Personal Services	247,063,711.00	37.09	238,038,002.07	37.14	278,725,763.62	38.93
MOOE	227,860,859.00	34.21	304,566,268.23	47.52	364,016,003.82	50.85
Capital Outlay	191,172,272.00	28.70	98,353,890.31	15.34	73,160,087.42	10.22
<b>Total</b>	<b>666,098,847.00</b>	<b>100</b>	<b>640,960,166.61</b>	<b>100</b>	<b>715,901,854.86</b>	<b>100</b>

Source: Angeles City SEP, 2008

### 3.3 Allotment Balance

An allotment balance or surplus was noted in 2006 and 2007, amounting to PhP27.09 million and PhP24.18 million, respectively. However, as presented in Table 3-4, a shortfall of PhP156.11 million was recorded in 2005.

**Table 3-4 Revenue and Expenditure, 2005-2007**

Year	Revenue	Expenditure	Allotment Balance
2005	509,989,873.00	666,098,847.00	(156,108,974.00)
2006	668,050,741.48	640,960,166.61	27,090,574.87
2007	740,085,224.92	715,901,854.86	24,183,370.06
<b>Average</b>	<b>639,375,279.80</b>	<b>674,320,289.49</b>	<b>(34,945,009.69)</b>

Source: Angeles City SEP, 2008

## 3.4 Comparison of Income and Expenditure

On a year on year basis, revenue shoot up by 30.99 percent from 2005 to 2006, as shown in Table 3-5, then slowed down in 2007 with growth recorded at only about 10 percent. On the other hand, from a bigger-than-revenue expenditure of PhP 666 million in 2005, the city's outlays fell by 3.77 percent in 2006 then grew back by 11.69 percent in 2007. Though the rate of growth was bigger in 2007 for expenditure, the positive growth in revenue in the two periods following 2005 was enough to cover the expenditures for the two years concerned and still generate a surplus. On the average, revenues grew by about 20 percent while expenditures by only about 4 percent.

**Table 3-5 Comparative Growth of Income and Expenditure**

Year	Revenue	Annual Growth Rate (%)	Expenditure	Annual Growth Rate (%)	Surplus / (Deficit)
2005	509,989,873.00		666,098,847.00		(156,108,974.00)
2006	668,050,741.48	30.99	640,960,166.61	(3.77)	27,090,574.87
2007	740,085,224.92	10.78	715,901,854.86	11.69	24,183,370.06
<b>Ave.</b>	<b>639,375,279.80</b>	<b>20.89</b>	<b>674,320,289.49</b>	<b>3.96</b>	<b>(34,945,009.69)</b>

Source: Angeles City SEP, 2008

## 3.5 Projected City Income and Expenditure

Using the historical record of income and expenditure as basis, the same were projected into the future to assess the financing capacity of the LGU especially for the proposed programs and projects as identified in the CDP. Table 3-6 shows the revenue and expenditure projections for the city.

**Table 3-6 Projected<sup>1</sup> LGU Development Financing Potential, 2008-2012**

Year	Revenue	Expenditure	Surplus/(Deficit)
2008	869,470,631.72	790,843,543.11	78,627,088.61
2009	960,622,089.61	865,785,231.36	94,836,858.25
2010	1,077,262,846.78	940,726,919.61	136,535,170.00
2011	1,176,910,737.76	1,015,668,607.85	161,242,129.91
2012	1,287,887,206.20	1,090,610,296.10	197,276,910.10

<sup>1</sup>Computed using Forecasting Method

Matching the two projections, a net surplus as indicated also in Table 3.6 for each of the years in projection, i.e., 2008-2012, was obtained. The estimated surplus or net income represents the new development investment financing potential of the local government before debt service and the 5% calamity fund. The latter two are further deducted from net income to arrive at a more accurate development financing potential estimate. It is this that is then matched with the capital and current expenditure requirement of the proposed programs and projects.

The process of matching the LGU's financial resources with the investment requirement is done iteratively until the two matches, or when

the amount of available funds is enough to cover the investment requirement of the projects the LGU chooses to implement in each year. But as available funds are usually not sufficient, as with the case of Angeles City, to meet the investment requirement of proposed programs/projects, the LGU necessarily has to make certain adjustments or adopt measures that would relax the budget constraint. This could be done through either one of, or a combination of the following measures:

- Raising additional local revenues –e.g., taxes, fees, charges;
- Borrowing capital funds -- i.e., through loans from development financing and commercial banks and/or bonds or through joint venture and BOT-type arrangements;
- Re-allocating funds from the operating budget to the investment budget;
- Proposed projects may be scaled down, phased or deferred.

The project cost of the ranked priority projects of the city government are only indicative and therefore would have to be firmed up through a detailed project study. The latter then becomes the basis for either public or private financing. Nevertheless, the projects and their indicative costs already provide an idea of the options or strategies the LGU could take for the projects' financing. Depending on the nature of the projects, they could either be public or private investments. Generally, income-generating projects can be venues for private participation, while basic social services for the poor and certain infrastructure for the promotion of public welfare and the economy fall under public investment. The latter may be pursued solely by

the local government or with the national government depending on the magnitude of the project investment and its impact.

While the projects have already been ranked according to priority, this does not however preclude the local government or whoever would be the new set of officials after the 2010 elections, to review the list of priority projects. The list may be adjusted as the local government deems it fit depending on the need and circumstances prevailing at a given time and the values and priorities accorded to the projects by the local stakeholders, the local officials in particular. Nevertheless, projects within the first three years of the elected officials' term are usually firmed up modified only as deemed necessary.

As it is, the ranked priority projects are a market list of the projects the local government could choose from, all of which are interventions deemed vital to Angeles City's economic and sustainable development.