

Republic of the Philippines  
HOUSE OF REPRESENTATIVES  
Quezon City

SEVENTEENTH CONGRESS  
First Regular Session

HOUSE BILL NO. 314

HOUSE OF REPRESENTATIVES

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INTRODUCED BY: HON. GWENDOLYN F. GARCIA

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### EXPLANATORY NOTE

Section 450 of Republic Act No. 7160, otherwise known as *The Local Government Code of 1991*, as amended by Republic Act No. 9009, requires that the average annual income requirement for a municipality or cluster of *barangays* to be converted into a component city should be at least One hundred million pesos (₱ 100,000,000) for the last two (2) consecutive years based on 2000 constant prices.

This bill seeks to further amend Section 450 of Republic Act No. 7160 by changing the basis or computation of the average annual income requirement for a municipality or cluster of *barangays* to be converted into a component city; -- that is from "2000 constant prices" to "current year consumer price index" certified by the Philippine Statistics Authority (PSA).

Constant prices refer to the value of the current money expressed in its buying power in a particular year. They reflect the value of the currency in a given year, expressed in a base year. They are often referred to as inflation-corrected.

The consumer price index (CPI), on the other hand, is an indicator of the change in the average retail prices of a fixed basket of goods and services commonly purchased by households relative to a base year. The CPI is most widely used in the calculation of the inflation rate and purchasing power of the peso. It is a major statistical series used for economic analysis and as a monitoring indicator of government economic policy.<sup>1</sup> CPI is a measure of changes in the purchasing-power of a currency and the rate of inflation. The consumer price index expresses the current prices of a basket of goods and services in terms of the prices during the same period in a previous year, to show effect of inflation on purchasing power.<sup>2</sup>

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<sup>1</sup>Please see

[https://psa.gov.ph/sites/default/files/attachments/itsd/article/Primer%20on%20Consumer%20Price%20Index\\_0.pdf](https://psa.gov.ph/sites/default/files/attachments/itsd/article/Primer%20on%20Consumer%20Price%20Index_0.pdf)

<sup>2</sup><http://www.businessdictionary.com/definition/consumer-price-index-CPI.html>

Adopting the "200 constant prices" as basis in determining the average annual requirement would unduly confine the parameters and conditions to the base year. It will ignore the dynamics of the present economic context especially the factors influencing the price indices and purchasing power that have materially and irreversibly changed over time. It will also restrict the law from evolving and keeping attuned to the changes of times.

Using a static base year as the determinant of compliance with the income requirement gradually renders the parameters unrealistic and obliterate the relevance of the law over the years. In the end, the law becomes a handicap for change rather than a vehicle for greater local autonomy and economic advancement.

This is the anomaly sought to be corrected. Employing the current consumer price index as criteria for satisfying the income requirement depicts a financial condition that is measured on current prices and reflective of the inflationary impact on purchasing power.

The current CPI as determined by the PSA should be the parameter used in determining compliance with the average annual income requirement. The PSA is after all, the major statistical agency responsible in collecting, compiling, classifying, producing, publishing, and disseminating general-purpose statistics.

Support for this bill is, thus, earnestly sought.

  
GWENDOLYN F. GARCIA

Republic of the Philippines  
HOUSE OF REPRESENTATIVES  
Quezon City

SEVENTEENTH CONGRESS  
Third Regular Session

HOUSE BILL NO. 314

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INTRODUCED BY: HON. GWENDOLYN F. GARCIA

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**AN ACT**  
**AMENDING THE AVERAGE ANNUAL INCOME REQUIREMENT FOR A**  
**MUNICIPALITY OR CLUSTER OF BARANGAYS TO BE CONVERTED**  
**INTO A COMPONENT CITY, AMENDING FOR THE PURPOSE REPUBLIC**  
**ACT NO. 9009 AND SECTION 450 OF REPUBLIC ACT NO. 7160,**  
**OTHERWISE KNOWN AS THE LOCAL GOVERNMENT CODE OF 1991**

*Be it enacted by the Senate and House of Representatives of the Philippines in Congress Assembled:*

**Section 1.** Section 450 of Republic Act No. 7160, otherwise known as the Local Government Code of 1991, is hereby further amended to read as follows:

**"Section 450. Requisites for Creation. -**

(a) A municipality or a cluster of barangays may be converted into a component city if it has a locally generated average annual income, as certified by the Department of Finance, of at least One hundred million pesos (P100,000,000) for the last two (2) consecutive years based on [200 constant prices] **THE CURRENT CONSUMER PRICE INDEX (CPI) CERTIFIED BY THE PHILIPPINE STATISTICS AUTHORITY,** and if it has either of the following requisites:

(i) a contiguous territory of at least one hundred (100) square kilometers, as certified by the Land Management Bureau; or

(ii) a population of not less than one hundred fifty thousand (150,000) inhabitants, as certified by the Philippine Statistics Authority:

Provided, That the creation thereof shall not reduce the land area, population and income of the original unit or units at the time of said

creation to less than the minimum requirements prescribed herein.

(b) The territorial jurisdiction of a newly-created city shall be properly identified by metes and bounds. The requirement on land area shall not apply where the city proposed to be created is composed of one (1) or more islands. The territory need not be contiguous if it comprises two (2) or more islands.

(c) The average annual income shall include the income accruing to the general fund, exclusive of special funds, transfers, and non-recurring income."

**Section 2. Repealing Clause.** - All laws, decrees, orders, rules and regulations, and other issuances or parts thereof, which are inconsistent with this Act, are hereby repealed or modified accordingly.

**Section 3. Effectivity Clause.** - This Act shall take effect fifteen (15) days after publication in the Official Gazette or in two (2) national newspapers of general circulation.

**Approved,**