

Report No: ACS5659



# Enhancing Tanauan City's Bankability and Creditworthiness

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EAST ASIA AND PACIFIC



DRAFT FINAL REPORT

## Disclaimer

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The funding for this study was provided by the PPIAF. The findings, interpretations, and conclusions expressed herein are entirely those of the project team and do not necessarily reflect the view of the PPIAF, the International Bank for Reconstruction and Development (The World Bank), its affiliated organizations, or members of its Board of Executive Directors or the countries they represent. The World Bank does not guarantee the accuracy of the data included in this report and accepts no responsibility whatsoever for any consequence of their use.

## Acknowledgment

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## Acronyms

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BAC	Bids and Awards Committee
BHW	Barangay Health Workers
BLGF	Bureau of Local Government Finance
CBMS	Community-based Monitoring System
CBD	Central Business District
CPDO	City Planning and Development Office
CENRO	City Environment and Natural Resources Office
CIP	Capital Investment Plan
CLUP	Comprehensive Land Use Plan
COA	Commission on Audit
DA	Department of Agriculture
DTI	Department of Trade and Industry
FPIP	First Philippine Industrial Park
GIS	Geographical Information System
IFC	International Finance Corporation
IRA	Internal Revenue Allotment
LGU	Local Government Unit
NAIA	Ninoy Aquino International Airport
MDFO	Municipal Development Fund Office
PPP	Public-Private Partnership
PPIAF	Public-Private Infrastructure Advisory Facility
RPTA	Real Property Tax Administration
SEPP	Socio-economic and Physical Profile
SME	Small and Medium Enterprise
SNTA	Sub-national Technical Assistance
STAR	Southern Tagalog Arterial Road
TA	Technical Assistance
TESDA	Technical Education and Skills Development Authority
WB	World Bank

## Executive Summary

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### Background and Objectives of the Technical Assistance

1. This technical assistance (TA) aims to assist Tanauan City to improve its creditworthiness and capacity to access market-based financing. This TA was sought in relation to the plan of the city to access market-based finance from the International Finance Corporation- World Bank Joint Sub-national Finance Program to fund the city's capital expenditure program. Tanauan City could be the first city in the Philippines to access market-based finance without sovereign guarantee.
2. Specifically, this TA aims to (a) assess the city's fiscal and financial performance as well as procurement and financial management capacities, and formulate recommendations for improvement; (b) advise the City Government in identifying and prioritizing infrastructure investments, and determining suitable financing options for these investments; (c) devise a road map or an action plan for implementing the TA's recommendations; and (d) help the City Government better understand market-based financing, credit risks, and recommend measures to mitigate such risks.

### Development Context

3. Tanauan City is situated near Makati City (approximately 68 kilometers), the country's primary financial and commercial business district. Tanauan City is part of the emerging metropolitan area of Northern Batangas, a fast-rising regional growth center south of Metro Manila.
4. The city's population has been rapidly growing in the last 13 years. It has dramatically increased from 117,539 in 2000 to 152,393 in 2010. The population is expected to further increase to 174,771 in 2015. Over this period, Tanauan City was growing at an average annual rate of 2.96 percent; faster than the growth rates of Batangas province (2.24 percent) and the Philippines as whole (2.12 percent).
5. Thirty five percent of the population (approximately 53,200) currently lives in urban barangays. The city's urban population density that ranges from 10,577 to 18,478 persons per square kilometer is comparable to that of some Metro Manila cities

- such as Taguig, Marikina, Valenzuela, Muntinlupa and Paranaque. The urban population is increasing at 3.9 percent, substantially faster than the growth rate of the rural population at 2.1 percent. Assuming the same urban growth rate, the population is expected to double in less than 20 years. However, considering that Metro Manila is rapidly expanding and Tanauan is proximate to the metropolis, this phenomenon may accelerate. Tanauan City may be predominantly urban in the next 10 years.
6. The city is largely agricultural in terms of land utilization. Around two-thirds (7,130 hectares) of the city's total land area is being devoted to agriculture. The city is also traditionally a trading hub for vegetables, fruits and livestock coming from Southern Tagalog and Bicol regions. However, commerce, trade and industry sectors have been growing in recent years. This can be attributed to the development spillovers of Metro Manila, presence of two industrial parks in Tanauan, accessibility to major transport infrastructure (STAR Toll) that connect Tanauan City to major markets for goods and services, and the deliberate plan of the Government to develop the northern portion of Batangas as a regional growth center.
  7. The rapid urbanization of Tanauan City has resulted in traffic congestion, inadequate water supply and energy, insufficient solid waste management, inadequate schools, educational facilities, and health care centers, lack of affordable housing, frequent flooding and drainage problems, among others. These urban challenges are not unique to Tanauan City. Other cities in the Philippines and elsewhere also experience the same challenges but are coping better because they manage to plan and implement strategic investments that are aimed to address the challenges.

### Fiscal and Financial Performance

8. Tanauan City has recorded impressive revenue growth in the last decade. The total revenues have steadily grown by 7 percent from 2001-2011. The growth in revenues is mainly due to the increase in real property and business taxes resulting from the operation in the city of the First Philippine Industrial Park (FPIP). Local revenues including real property and business taxes (13.3 percent) are growing faster than externally sourced revenues (11.5 percent), which consist primarily of the city's internal revenue allotment (i.e., transfers from the center). Tanauan City performed better in terms of generating local revenues compared with similar second-class cities in the Philippines. It posted one of the highest total receipts including real property tax collections and receipts from economic enterprises.
9. Although the city has fared relatively well over time in terms of revenue generation and collection, its performance is still considered to be below its potential, and the

- city economy is highly vulnerable to macroeconomic shocks. The volume of revenues collected is dependent not only on the performance of the locators in the FPIP but also on the behavior of the local economy. Tanauan City could implement fiscal reforms to reduce leakages, lessen vulnerability to shocks, and further increase revenues. The City Government could undertake a general revision of the schedule of market values of real property. The last revision conducted by the city was in 1993. It could likewise expedite tax mapping of both business establishments and real properties through the use of a geographic information system. And finally, it may pursue revisions of the market code to improve the management of its economic enterprises.
10. Tanauan City has been spending prudently, frequently registering surpluses in its cash operations at an average of Php56.4million per annum. However, the city has been under-spending across all sectors. Spending is also largely on general public services that address operational needs and less on capital investments. Tanauan City is missing out on opportunities for further city development because of this apparent conservative spending on much-needed public infrastructure and services.
  11. Tanauan City has no outstanding debt. The city could borrow from various sources of up to Php1billion, based on the prescribed ceiling for LGU borrowing (as calculated by the Bureau of Local Government Finance of the Department of Finance). The city was recently conferred the seal of good housekeeping by the Department of Interior and Local Government, which allows the LGU to avail of loans from banks and other financial institutions.
  12. The City Government infrastructure projects have generally been small, with project costs ranging from Php200, 000 to Php2million, and involving the construction of relatively simple structures with short contract duration. These include single to multi-storey school buildings, barangay halls, multi-purpose buildings, covered basketball courts, road concreting and drainage rehabilitation. The lack of experience in carrying out large and complex projects poses a constraint to the capacity of the City Government once it decides to embark on large and complex projects. The City Government would thus need to beef up its implementation capacities.

### City Assets and Challenges as Investment Destination

13. Tanauan City offers many possibilities for investment and land development because of its strategic location, accessibility and availability of land. The city is close to major transport and logistics infrastructure, which connect Tanauan City to major markets for goods and services, including Metro Manila, Batangas City and the four cities in



- CALABARZON Region. It is halfway between the Ninoy Aquino International Airport and the Manila harbor, and the alternative seaport in Batangas City. The city can readily be accessed using the Southern Tagalog Arterial Road (STAR Toll).
14. The City Government is in an excellent fiscal position, which if used strategically, can leverage and expedite development of the city. As of 30 June 2012, it had an accumulated cash of Php683million. It also has no outstanding debt.
  15. The current perception, sentiments and image of the Tanauan government from the point of view of the stakeholders particularly the private sector remains positive in terms of governance, trust and confidence. The private sector is also generally supportive of the City Government. However, stakeholders believe that the strategic direction, programs and projects of the city government need to be well articulated and communicated.
  16. Tanauan City has been experiencing dramatic economic growth in recent years. This is partly because of the improved infrastructure particularly the road network that allows ease of access from other regions to the city. However, Tanauan has not been able to keep pace with this rapid development. City development is characterized by rapid sprawl and “urban decay” (i.e., traffic, pollution, flooding, informal settlers). The city’s spatial structure shows a lack of sense of order. Likewise, infrastructure development has not been able to meet the demands of a growing city. The daily traffic within the city is becoming unbearable compounded by air and noise pollution even for the locals. Flooding is a growing concern as it creates inconvenience for the population in moving around the city proper. Tanauan is slowly losing its attractiveness and appeal as an investment destination while neighboring towns and cities are aggressively improving their infrastructure and services to be competitive. It might take only a few more years that this “losing” trend of Tanauan becomes irreversible. Unless deliberate efforts are made, no amount of investments can gain back the competitive edge of the city. A “do nothing” scenario should not be an option to Tanauan if the city wants to remain competitive.
  17. Tanauan has yet to come up with a land use and infrastructure plan that would guide the development of the city. It is fundamental for Tanauan to chart its policies and course of actions particularly for land use and expansion of basic infrastructure and public services.
  18. Peace and order has been historically challenging. City Government data revealed that crime incidence has been increasing in recent years. It is important to note that restoring peace and order is a priority of the new City Government.

19. Internal politics seem to be a stumbling block in decision-making process within Tanauan City Government. This results in a "status quo" or a conservative approach in implementing short- and long-term public investments. This "conservatism" or risk-averse mindset is prominent especially during local election seasons. Previous officials tended to be careful in making strategic and even day-to-day decisions, worried of potential adverse voter reaction. A good illustration is the reluctance to use the large cash surplus or to obtain loans for development projects. Infrastructure investments deemed urgent are often put on hold. The new administration seems to be more open to take bold decisions when it comes to long-term investment programs.
20. Today offers great opportunity for the new LGU administration to change the course of development in the city. City stakeholders, particularly the private sector, are very interested and keen in working with the City Government. However, the strategic direction, programs and projects of the LGU have yet to be well articulated and communicated to them. Therefore, the new administration can do better by addressing peace and order problems in the city, exhibiting political maturity, carrying out serious long-term planning and committing to implementing a sensible investment program. Development efforts can be focused on making Tanauan a city with "peace and sense of order" and where "ease of doing business" exists with the hope of gaining back its competitive advantage. This may require a change in mindset of the LGU to "think big" and long-term and to make bold decisions to put Tanauan on a road to sustained growth. The city may also need to be open to hiring highly experienced advisers and consultants to provide a broader perspective in the long-term development of the city.

### Key Investment Areas

21. The following recommended actions are proposed for the new City Government to consider if it is to attract more investments particularly from the private sector and transform the city into a vibrant economy:
  - a) Improving wholesale and retail trade flow. The strategic location of Tanauan remains its strength as a traditional trading hub for wholesale and retail trade in the province and region for several decades. Tanauan, however, has not leveraged its wholesale trade advantages, particularly in crops and livestock production, which are for local and potentially export markets. This is because of the seemingly lack of linkage between trading activities in Tanauan and its agricultural sector, and deficiency in infrastructure requirements of a "regional" trading hub.

- b) Improving its image and livability by rehabilitating the city's urban core. The city's infrastructure and services have not coped with rapid development due to lack of long-term land use and infrastructure planning. Putting a sense of order through urban re-development would be necessary to revive the attractiveness of Tanauan and allow the city to position itself as an investment destination relative to the province, CALABARZON and Greater Metro Manila.
- c) Leveraging the FPIP operating in the city. The investments in the FPIP have generated tremendous benefits for Tanauan particularly in the increase in local revenues (real estate taxes) for the City Government. However, the investment made by FPIP seems to be purely a "real estate play" without having it leveraged as an economic driver for Tanauan. This is in spite of the fact that a significant portion of the FPIP area is located in Tanauan. At present, Sto. Tomas (the town next to Tanauan) is the main entrance to the FPIP and Tanauan, unfortunately, remains just a back door entry to the investment site, which has not been easily accessible for Tanauan residents. Having another main access in Tanauan can open opportunities for local economic development.
- d) Improving agricultural productivity. Agriculture seems to be a neglected sector with the existence of underutilized and idle lands. Under the present land classification, Tanauan City is predominantly an agricultural area. However, no significant investments have been allotted for programs and projects to revive the agricultural sector of the City. The use of agricultural areas remains a backyard economic activity and has not been strategically poised as a potential growth area. Opportunities in the agricultural areas are more speculative and biased towards land conversion for residential or industrial use rather than the focus of a large-scale agricultural development endeavor.
- e) Creating an enabling, investor-friendly environment at the City Government. An investor-friendly environment is condition for making Tanauan a preferred investment destination. This entails the City Government to do a series of measures including (i) preparation of the city's long term land use and investment plans, (ii) implementation of catalytic infrastructure investments such as rehabilitating the city's urban core, (iii) reformulation of Tanauan City Investment and Incentives Code and Revenue Code, (iv) streamlining local government business processes by creating a one-stop shop for businesses, (v) strengthening partnerships with investors/locators by engaging them in community development programs, (vi) continuing the capacity-strengthening of City Government officials and staff, and (vi) pursue initiatives to push resolution by the authorities of the lingering energy shortage problem in the area (e.g. by

having representation and being actively involved at the board level in the management and operation of the Batangas Electric Cooperative II to ensure stability in the power supply in Tanauan).

- f) Expanding basic social services (water, education, health, etc.). Tanauan City has generated substantial local revenues in recent years. The level of revenues is higher compared to many Philippine cities the size of Tanauan. However, spending for basic infrastructure and public services has been conservative, and Tanauan City constituents have not felt the benefits of the good revenue situation, whereas it is in a very position to increase the delivery of such social services.

### Recommended Investments and Indicative Costs

Key Investment Areas	Potential Investments	Indicative Cost (PhM)
Improving wholesale and retail trade flow	1. Wholesale market (excluding land acquisition) 2. Integrated transport terminal 3. Support facilities (cold storage, AAA-class slaughterhouse, food processing center, auction area, etc.)	200 150 200
		<b>550</b>
Rehabilitating the city's urban core and creating community space	1. Traffic management equipment and signages 2. Pedestrianization 3. Drainage facilities* 4. Heritage sites preservation and tourism promotion 5. Improvement in open spaces, children parks, and playground, greening, etc. 6. Sanitary landfill (excluding land acquisition)	20 10 141 5 20 160
		<b>356</b>
Leveraging on the FPIP	1. Main access road and main entrance (2km) 2. Community development program for barangays adjacent to the FPIP	240 10
		<b>250</b>
Improving agricultural productivity	1. Capacity development programs 2. Organizing/strengthening cooperatives and SMEs 3. Infrastructure support**	12 4 -
		<b>16</b>

Creating an enabling, investor-friendly environment	1. Completion/preparation of land use and investment plan	-
	2. Formulation of Investment and Incentives Code	-
	3. Computerized system to enhance revenue collection	10
	4. One stop shop facility	10
	5. Capacity-strengthening program for city officials and staff	6
		<b>26</b>
Expand basic public/ social services	1. Water supply**	-
	2. School buildings and facilities**	-
	3. Health care centers/ hospitals/maternal clinics**	-
	4. Desludging and wastewater treatment facilities**	-
	5. Public schools and facilities**	-
	6. Power supply (c/o Batelec or partnership with Meralco)**	-
*City Engineer's estimate based on on-going study commissioned by the City		
**Beyond the scope of the study; City Government to estimate through its planning process		

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## Project Context

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Tanauan City forms part of the emerging metropolitan area of Northern Batangas, a fast-rising regional growth center south of Metro Manila. It is proximate to the Makati Central Business District (i.e., 68 kilometers), the country's primary financial and commercial enclave. The city is also located halfway between the Ninoy Aquino International Airport (NAIA) and the alternative seaport in Batangas City. The city has a population of around 152,000. As a result of the development spillovers of Metro Manila, Tanauan City is rapidly urbanizing in recent years and is evolving as part of the conurbation of Mega Manila. As such, the city is increasingly confronted with many challenges brought about by rapid urbanization such as traffic congestion, inadequate water and power supply, frequent flooding, and insufficient solid waste disposal, among others. The Tanauan City Government intends to implement a 5-year infrastructure program to be more prepared in managing the impacts of rapid urbanization.

Tanauan City is considering accessing market-based financing from the World Bank-International Finance Corporation (WB-IFC) Joint Sub-national Finance Program to finance its investment program. This is the city's first attempt to access market-based financing and could potentially be a pilot case for the country. In view of this, Tanauan City requested for a technical assistance (TA) from the Public-Private Infrastructure Advisory Facility (PPIAF) of the World Bank Group to help the city improve its creditworthiness and strengthen its capacity to access market-based financing.

### The WB-IFC Sub-national Finance Program

This program provides full range of financial instruments for infrastructure investments to creditworthy local and state entities without sovereign guarantees and on commercial basis. It also offers assistance to clients in building their capacity and creditworthiness, and developing local markets for municipal financing. It is a new approach by the World Bank Group to infrastructure development. Traditionally, the World Bank invests in sub-national entities through National Government guarantees while the IFC invests in a range of sub-national infrastructure projects through engagements with the private sector. It is envisioned that bringing together the expertise of the World Bank and IFC in one program would allow for bigger impacts in infrastructure development.



## The PPIAF

The PPIAF is a multi-donor trust fund that provides TA to governments in developing countries to promote an enabling environment that is conducive to private investments. The PPIAF offers a Sub-National Technical Assistance Program to help sub-national entities improve their creditworthiness and bankability. The key areas of support include credit ratings, design and implementation of creditworthiness enhancement programs, project preparation for financing without sovereign guarantees, and knowledge generation and dissemination.

## The Project

In August 2012, Tanauan City obtained TA from the PPIAF. A team of consultants was mobilized to conduct a study that would help Tanauan City identify opportunities to enhance fiscal performance, and improve capacity for service delivery. The study was also envisioned to help the city identify priority infrastructure investments, and determine suitable financing options for these investments including own-source funds, borrowing from government financial institutions, public-private partnerships, and market-based financing, among others.

The TA specifically aimed to:

1. Assess the city's (i) tax and non-tax revenue landscape and identify constraints and opportunities for expanding revenues, (ii) policies, processes, practices and capacity for revenue collection and enforcement, (iii) procurement and financial management capacity; and identify areas for improvement;
2. Advise the City Government in the prioritization of investment projects identified in the Annual Investment Plan and Comprehensive Development Plan for market-based financing and for financing by other sources (e.g., own-source, private sector, public-private partnership, etc.);
3. Devise a road map or an action plan for implementing the study's recommendations including the identification of strategies to improve the attractiveness of the city as an investment destination choice in general and to encourage projects identified for private sector or PPP financing in particular; and

4. Help the City Government better understand market-based financing, credit risks, and recommend measures to mitigate such risks.

To achieve these objectives, the TA carried out desk review of related documents including those that are provided by the City Government and those from government agencies (e.g., National Statistics Office, National Statistical Coordination Board, National Economic and Development Authority, Bureau of Local Government Finance, etc.), and international development institutions. It also conducted focus group discussions and key informant interviews with city stakeholders including the City Government officials and staff, representatives from National Government agencies, provincial government, civil society organizations, and business groups operating in the city and those that have business interests in the provinces of Batangas and Laguna, among others. Furthermore, reconnaissance surveys and visits to existing infrastructure facilities and potential locations of proposed priority investments were undertaken. Considering the level of preparedness of Tanauan City in terms of city development planning, the TA also carried out a series of land use and investment planning workshops for the City Government officials and staff to facilitate identification and prioritization of key investments and strengthen the city's planning capacity.

## Outline of the Report

This report presents the results of the TA. Following this introduction, Chapter 2 presents Tanauan City's development context, highlighting the demographic and economic characteristics that reflect the degree of vibrancy of its local economy. Chapter 3 discusses the city's fiscal and financial situation, and financing capacity. Chapter 4 briefly provides the project team's assessment of Tanauan City as an investment destination focusing on the city's assets and opportunities as well as threats and challenges. It also lists the potential investment areas for the city and corresponding financing options. Finally, the last chapter provides the recommended key next steps to be undertaken by Tanauan City.

## Development Context

### Geographic Location

Tanauan City is located at the northeastern part of Batangas province and at the southern periphery of Metro Manila. It is proximate to Makati City, the country's primary financial and commercial business district. It is also mid-way between the country's main seaport and airport, the Ninoy Aquino International Airport and the Manila International Seaport, and the Batangas international seaport (the alternative seaport of Metro Manila). Given its proximity to Metro Manila and as a result of the rapid expansion of the metropolis, the city has organically evolved as part of the conurbation of the national capital region.



### Demographic Profile

Based on the socio-economic profile of Tanauan, the city is generally characterized by:

**A rapidly growing population.** The city is the third largest entity in the entire Batangas province in terms of population, closely following Batangas City (the provincial capital) and Lipa City. Tanauan has been rapidly growing in the last 13 years. The city's population dramatically increased from 117,539 in 2000 to 152,393 in 2010. The population is expected to further increase to 174,771 in 2015. Over the 2000-2010 period, Tanauan City was growing at an average annual rate of 2.96 percent<sup>1</sup>; faster than the growth rates of Batangas province (2.24%) and the Philippines as whole (2.12%).<sup>2</sup> The rapid population growth over the last decade could be related to increasing birth

<sup>1</sup> Study team's computation

<sup>2</sup> NSO 2010 Population and Annual Growth Rates for the Philippines and its Regions, Provinces and Highly Urbanized Cities based on the 1990, 2000 and 2010 censuses.

rates (20% of the total population belong to 0-9 age range) and migration of people from other neighboring cities and municipalities in search of work.

**An urbanizing population.** Nineteen of the 48 barangays of Tanauan are administratively designated as urban. Thirty five percent of the population currently lives in these urban barangays. Urban population density in the urban core (poblacion areas) is very high ranging from 10,577 to 18,478 persons per square kilometer. The urban population is increasing at 3.9 percent, substantially faster than the growth rate of the rural population at 2.1 percent. This rapid growth can be attributed to the migration of rural residents to the city center (poblacion) and adjacent areas as well as the migration of people from adjacent cities and municipalities to find employment. Assuming the same urban growth rate, the population is expected to double in less than 20 years. However, considering that Metro Manila is rapidly expanding and Tanauan is proximate to the metropolis, this phenomenon may be hastened. Tanauan City may be predominantly urban in the next 10 years.

**A population comprising mainly of the young and dependents.** Around 41 percent of the total population is of school age (5-24 years old). In addition, five of every 10 Tanauan residents are considered dependents. A young and dependent population would imply an increase in pressure in basic public services and an increase in the labor pool in the next 10-20 years.

**A literate population.** Literacy rate is high at 99 percent, higher than the national average of 93 percent. Completion of secondary education is also high at 96 percent. Tertiary or technical education completion is registered at 50-75 percent. The presence of a large number of schools in the city significantly contributes to the high level of literacy of its residents. While Tanauan City enjoys a high literacy rate, the results of stakeholder consultations conducted by the study team show that there exists a mismatch between the skills of Tanauan residents and skills required for new and existing jobs particularly in the two economic zones.

## State of Public Infrastructure and Services

**Public infrastructure in Tanauan City is increasingly getting strained.** The city has not been able to keep pace with the demands of the rapid increase in population and economic activities. The City Government has also inadequately invested on basic public infrastructure and services in recent years.

**The city is already experiencing inadequate water supply due to population pressure and increase in the number of commercial establishments.** Based on

Tanauan City's Socio-economic and Physical Profile (SEPP), 98 percent of the total number of households in Tanauan City has access to potable water supply. The Tanauan Water District supplies water to 34 barangays while the Barangay Waterworks Associations supply the remaining 14 barangays.

***Sanitation is a major concern, as many households in the city including those in the urban center still do not have access to sanitation facilities.*** The SEPP reports that around 2,000 households are still using closed pit, open pit or do not have any toilets at all. For households with sanitation facilities, regular desludging is not practiced. This could be one of the reasons (along with inadequate water supply) as to why the city has high incidence of people experiencing acute watery diarrhea. Diarrhea is also a major cause of infant morbidity and mortality.

***Public health is likewise a major concern. The city is confronted with many challenges including high infant and maternal mortality, and increasing prevalence of communicable diseases as leading causes of morbidity and mortality.*** According to the SEPP, infant and maternal mortality rates averaged at 10.34 and 1.06, respectively for the period 2007-2011. Among the main causes of infant mortality are pneumonia and diarrhea while the causes for maternal mortality include delays in decisions to seek medical care and in receiving appropriate and adequate care at health facilities. Furthermore, the major leading causes of morbidity in the city are communicable and infectious in nature. These include bronchitis, influenza, tuberculosis, dengue fever, and diarrhea. These causes can actually be prevented with better provision and delivery of public health services.

***Health care personnel and facilities are inadequate to deliver the needed services for the city's constituents.*** The number of physicians required, for example, is 7 for every 20,000 population, whereas Tanauan City only has 2. Similar situation exists for dentists, nurses, and midwives. Even with barangay health workers (BHW), Tanauan City only has 237 while the requirement to meet 100 households is 291. In terms of health care facilities, the city has two rural health units, 44 Barangay Health Centers and the JP Laurel Memorial Hospital with a capacity of 25 bedrooms. The city also has five private hospitals with a total capacity of 285 bedrooms.

***The city is currently enjoying high literacy rate but it faces an impending challenge of meeting the demand of a growing population for better education.*** The city has 44 public and elementary schools, 11 public high schools, 15 private elementary schools, 9 private high schools, 5 tertiary schools, and 1 vocational school. In the public elementary school, the teacher-student ratio is 1:40 while the classroom-student ratio is 1:35. In the public secondary school, the teacher-student ratio is 1:45 while the classroom-student ratio is 1:51. In the private tertiary schools the teacher-

student ratio is 1:11. The SEPP reports that almost all public elementary and secondary schools do not have basic facilities such as library, laboratory, computers, playground and clinic. The city is also increasingly experiencing overcrowded classrooms.

***The city has been experiencing frequent power interruptions. This condition disrupts economic activities and limits the capacity of the city to absorb more commercial and industrial establishments that could propel further growth.*** The Batangas Electric Cooperative II supplies electricity to a total of 30,354 households and commercial establishments<sup>3</sup> as of 2010. Power supply, however, is frequently interrupted. Record shows that from January 2012- April 2013, power interruptions were frequent. The average frequency of power interruptions per month was 39 hours. Tanauan has no representation in the Batangas Electric Cooperative II board and has allowed the cooperative to dictate the power supply to Tanauan. Meralco supplies power to the entire FPIP and a small portion of Barangay Laurel.

***Tanauan City has generally acceptable road infrastructure and is easily accessible.*** Tanauan City has a total of 18.12 kilometers of national roads, 67.50 kilometers of provincial roads, 36.57 kilometers of city roads and 72.56 kilometers of barangay roads. All these roads are concrete or made of asphalt. Tanauan City is connected to Metro Manila, Laguna and Batangas through the Southern Tagalog Arterial Road (STAR), which is further connected to the South Luzon Expressway (SLEX). The city is also connected to national roads going to the municipalities of Talisay, Laurel, Malvar and Lipa City. Internally, the barangays of Tanauan are connected to the city's urban center. However, traffic congestion at the city center, particularly near the public markets, is severe. Tanauan City needs to formulate and implement a traffic management plan to ease traffic flow in the city center.

***Solid waste is a looming problem as the city continues to urbanize.*** The daily average volume of collected garbage from all sources is approximately 24 tons per day (CENRO, 2012). Household waste contributes to around 40 percent of the total garbage volume. The city does not have its own sanitary landfill. A private company hauls the city's garbage. On the average, it hauls 3,500 truckloads per year or 10 truckloads per day. The City Government incurs approximately Php 20million per year for hauling the garbage (whereas a one-hectare sanitary landfill would only cost Php40 million<sup>4</sup> or equivalent of 2 years of hauling costs). In terms of collection, only the waste from 9 out of 48 barangays mostly in the poblacion area is being collected. The rest of the barangays are coping with their garbage problem on their own by burning waste, recycling part of the waste or by digging garbage/compose pits in their backyards.

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<sup>3</sup> Based on Tanauan City SEPP

<sup>4</sup> Excluding land acquisition

***The city has an increasing number of informal settlers as a result of the increasing urbanization.*** To date, a total of 1,862 households are residing in 10 blighted informal settlements.

***Peace and order is a major concern.*** City Government data shows that crime incidence especially against persons and property is increasing. Crime incidence is highest in Poblacion 7, Barangay Sambat and Barangay Darasa.

## Local Economy

***The city is predominantly agricultural in terms of land utilization.*** Around two-thirds (or 7,130 hectares) of the city's total land area is being devoted to agriculture. The city produces mainly fruits and vegetables, which are being sold within the province, region and in Metro Manila markets. It is also a producer of poultry and livestock products both for local and export markets.

***And is traditionally a trading hub for vegetables and fruits and livestock coming from Southern Tagalog and Bicol regions.*** It has public markets that are operational 24 hours a day. It also has an auction market for livestock, which is the second biggest in Batangas.

***While Tanauan City is primarily agricultural in orientation, commerce, trade and industry sectors have been growing in recent years.*** This can be attributed to a number of factors including the development spillovers of Metro Manila, presence of two industrial parks in Tanauan, accessibility to major transport infrastructure (STAR Toll) and the deliberate plan of the Government to develop the northern portion of Batangas as a regional growth center, among others. In 2007, the city had a total of 1,680 registered commercial establishments. This was increased to 1,982 establishments in 2011.

***Majority of these establishments are in retail and wholesale activities.*** Employment in commercial and trading activities registered at 2,900 persons. The City Government's tax collection from these business activities likewise increased from Php52million in 2007 to Php415million in 2011.

***Cottage industries dominate the industry sector in terms of number of establishments but large industries are the main sources of local revenues and major providers of employment opportunities.*** The industrial sector of Tanauan City is mainly composed of agriculture-based, manufacturing, food processing and garments

industries. Seventy percent of the total number of industries in Tanauan City is considered cottage industries based on capitalization (> Php150,000-1.5million). Twenty two percent are classified as small scale while 4 percent are micro-industries. The rest are large-scale industries, which comprise the 22 locators in the Philtown and FPIP economic zones.

***The tourism industry in Tanauan is practically underdeveloped.*** However, almost half of the city's current land use is allocated for environmental protection under the NIPAS law due to its proximity to Taal Volcano. This would mean that the areas covered by the NIPAS would only be allowed to carry out low-intensity activities. Moreover, Tanauan City is rich in history being the hometown of Apolinario Mabini, a national hero. The Mabini Shrine has not aggressively been promoted as a tourist attraction. Tourism could therefore be an alternative source of livelihood in these areas.

### **Labor and Employment**

***Unemployment in the city is manageable.*** Thirty eight percent of the city's population is economically active. According to the Community Based Monitoring System, there are 51,362 gainfully employed workers in the city. This represents 92 percent of the city's total labor force. Considering that Tanauan City residents are generally literate and job opportunities are available in the economic zones, provision of training and re-education to match labor requirements of locators or training and support on entrepreneurial activities that maximize the benefits from the presence of the two parks would significantly help generate income and employment for city residents.

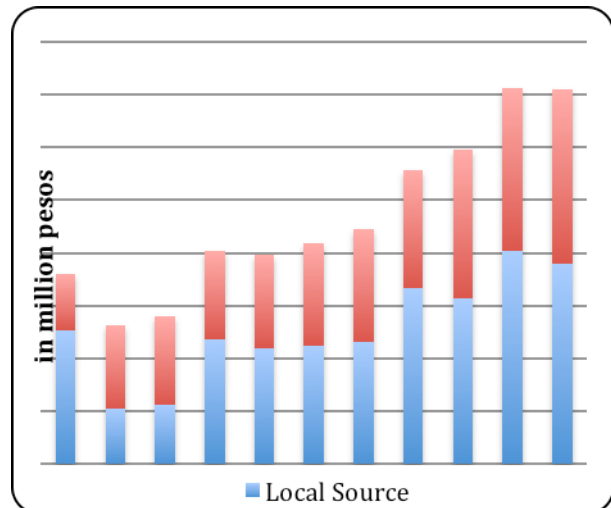


## Fiscal and Financial Performance

### Revenue Landscape

**The city has recorded impressive growth in revenues in recent years.** The total revenues of Tanauan City have steadily increased from Php360.3million in 2001 to Php708.5million in 2011, registering an average annual growth rate of 7 percent over this 10-year period<sup>5</sup>. The hefty increase in revenues was mainly attributed to the commencement of operations of the FPIP. In 2004, revenues from real property and business taxes then grew by 246 percent and 361 percent, respectively.

Chart 1: Total Income of Tanauan City, 2001-2011



Source: Bureau of Local Government Finance (BLGF)

**Total revenues are growing both in nominal and real terms, with local revenues growing faster than externally sourced revenues.** From 2007 to 2011, the average annual growth in total revenues of the city is reported at 12.4 percent in nominal terms, and 7.8 percent in real terms. The increase in the city's revenues of 12.4 percent is higher than the sum of the average inflation rate of 4.6 percent and the annual population growth rate of 2.2 percent. Local sources of revenue grew at a faster rate than those externally sourced, 13.3 percent versus 11.5 percent. External sources of revenue consist primarily of internal revenue allotment (IRA), while internal sources include tax and non-tax revenues.

**When compared with similar second-class cities<sup>6</sup> in the country, Tanauan City posted one of the highest total receipts including real property tax collections**

<sup>5</sup> Total revenues in 2002 was recorded at Php263.1 million and increased to Php 402.5million..

<sup>6</sup> Income classification based on DOF Order No. 23-08 dated 29 July 2008. This includes the city of Navotas, Dagupan, Urdaneta Lucena, Tagaytay, Tanauan, Legazpi, Naga, Bago, Cadiz, San Carlos Bayawan, Pagadian, Valencia, Gingoog and Digos.

**and receipts from economic enterprises.** The city's total receipt of Php708.5million was much higher than the average of Php682.4million among second-class cities. Only the cities of Navotas, Gingoog, Lucena, and Naga registered total receipts higher than Tanauan. The city benefitted from a Php454million windfall in extraordinary receipts that resulted in a 100 percent increase in its income relative to the previous year. Tanauan had likewise among the largest real property tax collections and receipts from economic enterprises. Its real property tax collections of Php180.3million posted in 2011 was the second highest among second-class cities. Moreover, its revenues from economic enterprises of Php61.8million in 2011 was the third highest among second-class cities. Due to its substantial tax and non-tax revenues, Tanauan had the second highest share of locally sourced income to total at 53.4 percent in 2011. The average share among second-class cities was 31.5 percent.

**Majority of the total current operating income of the city was derived from local sources including tax and non-tax revenues.** From 2007-2011, the contribution of local sources to total income ranged from of 51.8 percent to 59.7 percent. Real property and business taxes are the major sources of tax revenues with shares to total income of 24.5 percent and 12.9 percent, respectively. Non-tax revenues, mainly earnings from economic enterprises, contributed around 15 percent of total income. Revenues from the market, slaughterhouse, and cemetery amount to some Php60million per annum. During the same five-year period, the share of IRA to total income ranged from a low of 40 percent in 2008 to a high of 48 percent in 2007. The City Government had no receipts from capital and investments, and loans and borrowings.

**Local revenues are generally sourced from real property and business taxes of locators in the FPIP.** The largest taxpayers of real property and business taxes are the locators in the FPIP. PMFTC (Philip Morris) was the largest taxpayer of real property taxes in 2011 with gross collections of Php122.9million. At a distant second, third, and fourth were Maxim Philippine Operating Corporation, First Philec Solar Corporation, and Honda Philippines with gross collections of Php17.3million, Php16.3million, and Php13.3million, respectively. Maxim Philippines is engaged in the manufacturing and testing of integrated circuits, while First Philec Solar's main business is the manufacturing of solar wafers. Just recently, First Philec Solar significantly scaled down its operations in the industrial park.

**Tanauan City has exceeded the targets<sup>7</sup> for its major sources of operating income for 2010- 2011.** The city exceeded its real property tax collection target by an average

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<sup>7</sup> The Office of the City Treasurer in coordination with the BLGF regional office set the collection targets for the major income sources.

of 19.6 percent per year (approximately Php35million per year). In the same period, the city also surpassed its target income from fees and charges by an average of 60 percent per year (about Php10million per year). In 2012, actual incomes from fees and charges almost doubled its collections target.

***However, the city's collection efforts for business taxes produced mixed results.***

After exceeding its target by Php7.9million in 2011, the City Government missed its collection target by Php10.4million the following year. This shortfall may be due to the 24 percent increase in the collection target in 2011. Likewise, actual receipts from economic enterprises have missed its target in the past two years. However, the City Government managed to reduce its deficit to Php4.3million in 2011 from Php8.7million in 2010.

***Collection from real property and business taxes exceeded the targets for 2012.***

Based on available information, the actual collections of business taxes stood at Php136.8million in the first seven months of 2012, surpassing its full year target by more than 35 percent. For real property taxes, actual collection summed to Php219.9million over the same period. On an annualized basis, this amounts to some Php330million, which would be significantly higher than its 2012 collection target. Real property and business taxes account for more than 37 percent of total income of the City Government. Unless incomes from fees and charges, and economic enterprises picked up in the last five months of 2012, the City Government will most likely fall short of its 2012 target. Higher targets were set for real property taxes, fees and charges since the new tariffs prescribed in the revised revenue code<sup>8</sup> took effect in 2012.

***Local revenues are expected to boost in the short-medium term.*** Aside from the increase in the fees and charges, and the rates imposed on real property and business taxes, the City Government's revenues will be boosted by the opening of the new Nestle plant and the planned establishment of Brother Industries Philippines' manufacturing plant in the FPIP.<sup>9</sup> In the medium-term, locally sourced revenues will be boosted by the planned expansion of the FPIP. Due to continued strong demand from

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<sup>8</sup> The City Government expects significant improvements in locally sourced revenues starting in 2012 considering the approval of the revised revenue code. In November 2011, the Sanggunian Panlungsod approved Tax Ordinance No. 2011-01 or otherwise known as the "Revenue Code of the City of Tanauan, Batangas". The primary objective of the new revenue code is to adjust upwards its fees and charges, and tax rates in order to make them comparable with those of its neighboring cities and municipalities. The last time the city's revenue code was revised was back in 1993.

<sup>9</sup> In October 2012, Nestle Philippines inaugurated the new Php5billion manufacturing plant in its 27-hectare property in the FPIP. The plant will be producing the Coffee-mate non-dairy creamer to meet the growing demand of the Filipino consumers. Likewise, Brother Industries Limited plans to invest an initial amount of US\$12million for the establishment of a manufacturing plant in the FPIP. The new plant will support the company's printing business in Asia and will manufacture and export parts for inkjet printers.

locators, between 150 to 200 hectares is expected to be added to the industrial park. If the planned purchase is realized, the industrial park will now be connected to the Star Toll road.

**The largest taxpayers of real property and business taxes are the locators in the FPIP.** PMFTC was the largest taxpayer of real property taxes in 2011 with gross collections of Php122.9 million (see Table 1). At a distant second, third, and fourth were Maxim Philippine Operating Corporation, First Philec Solar Corporation, and Honda Philippines with gross collections of Php17.3million, Php16.3million, and Php13.3million, respectively. Maxim Philippines is engaged in the manufacturing and testing of integrated circuits, while First Philec Solar's main business is the manufacturing of solar wafers. Just recently, First Philec Solar significantly scaled down its operations in the industrial park. All of these four companies are located in the FPIP.

**Table 1: Top 20 Taxpayers of Real Property Tax, 2011**

Business Name	Gross Tax Collections (Php M)	Business Name	Gross Tax Collections (Php M)
Philip Morris Philippines	122.9	Belle Corporation	1.5
Maxim Phil. Operating Corporation	17.3	UAM Philippines	1.2
First Philec Solar Corporation	16.3	Flexo Manufacturing Corporation	1.0
Honda Philippines	13.3	Smart Communications, Inc.	0.9
Willin Sales Inc.	2.8	PENPRO, Inc.	0.7
WCL Ventures Development Corporation	2.7	Brillante Realty Corporation	0.7
First Philippines Industrial Park, Inc.	2.31	Taiyo Nippon Sanso Phils. Inc.	0.5
Philippines Beverage Partners, Inc.	2.2	Orecla Realty	0.4
Uni-President (Philippines) Corporation	1.8	Vine Dresser Incorporated	0.4
POSCO-PMPC	1.7	Land Bank of the Philippines	0.4

Source: City Treasurer's Office

PMFTC was likewise the largest taxpayer of business taxes with gross collections of Php23.6million in 2011. A far second was Honda Philippines with Php4.7million in tax collections. The next two largest taxpayers – Jollibee Foods Corporation (Php2.5million) and Uni-President Foods Corporation (Php1.8million) are located outside the FPIP. Uni-President is a Taiwanese food-manufacturing conglomerate located in another industrial zone in Tanauan City called Philtown Industrial Estate. Philtown has a total land area of 170 hectares and was developed by the RFM Corporation. However, unlike FPIP, Philtown has not been fully developed and has a limited number of locators.

Table 2: Top 20 Taxpayers of Business Tax, 2011

Business Name	Gross Tax Collections (Php M)	Business Name	Gross Tax Collections (Php M)
PMFTC	23.6	WCL Development Corporation	0.8
Honda Philippines, Inc.	4.7	Puregold Jr. Supermarket, Inc.	0.5
Jollibee Foods Corporation	2.5	Avon Cosmetics, Inc. - Tan. Serv. Ctr	0.5
Uni-President Foods Corporation	1.8	Flexo Marketing Corporation	0.5
Air Liquid Pipeline Utilities	1.8	Daniel Mercado Medical Center	0.4
San Miguel Foods Corporation	1.6	Abenson Ventures, Inc.	0.4
Waltermart Supermarket, Inc.	1.7	Pres. Jose P. Laurel Rural Bank, Inc.	0.3
Fortune Landequities & Resources, Inc.	1.3	Jollibee Foods Corporation - Tanauan 2	0.2
Golden Arches Development Corporation (McDonald's)	1.0	Expressions Stationery Shop, Inc.	0.2
BPI Family Savings Bank	0.8	Fresh N' Famous Foods, Inc. (Greenwich)	0.2

Source: City Treasurer's Office

**The sources of revenues are highly vulnerable to macroeconomic shocks.** The largest taxpayers of real property and business taxes are the locators in the FPIP. There are currently 50 locators in the industrial park, which is situated in Tanauan City and the municipality of Santo Tomas. About 80% of the locators are subsidiaries or affiliates of Japanese companies. However, the largest firms such as Philip Morris Fortune Tobacco Corporation, Inc. (PMFTC) and Honda Philippines are located in the Tanauan portion of the park. The amount of taxes depends not only on the performance of these locators but also on the behavior of the local economy. Local taxes could significantly drop if locators decide to close down their operation or pull out for various reasons.

### Prospects of Increasing City Revenues

**Although the City Government has fared relatively well over time in terms of cash operations, its performance is considered to be below its potential.** Tanauan City has opportunities for reducing leakages and further increasing revenues.

**The City Government could carry out a general revision of the schedule of market values of real property.** The last revision conducted by the city was back in 1993. This resulted in declining collections in real terms and under collection from inaccurate amounts. The Local Government Code mandates LGUs to undertake a general revision of the schedule of market values or real property every three years. With completion of

the construction of the STAR, the market values of real property alongside the toll way have increased significantly since 1993.

***It could enhance tax administration by expediting tax mapping of both business establishments and real properties, computerization and use of the geographic information system (GIS).*** The experiences of the cities of Naga, Cabanatuan, and Santa Rosa show that tax mapping have considerably boosted tax revenues. The City Government relies heavily on real property and business tax payments from big locators in the FPIP. Local tax collections, particularly real property and business taxes, may be vulnerable to the pullout of a major locator in the industrial park in the future. Tax mapping will not only augment revenues but will also ensure sustainability of tax collections. In its 2012 Annual Investment Plan, Php10million would be allocated for the modification of the real property tax system including tax mapping, and purchase of GIS software and training.

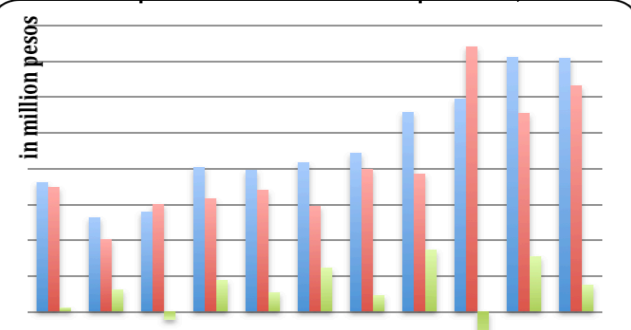
***Finally, it could implement the necessary reforms to improve the management of its economic enterprises.*** The City Government posted losses in the financial operations of its economic enterprises in 2007 and 2008. The excess of expenditures over receipts stood at Php51.2million in 2007 but was reduced to Php33.9million in 2008. Revenues from the operations of the market, slaughterhouse, and cemetery are not sufficient to cover personnel costs as well as maintenance and operating expenditures. Operating losses can be eliminated by a combination of higher fees and charges and the rationalization of current expenditures. The City Government recently completed the revision of the market code and its approval is pending with the city council. The fees and charges imposed for the services offered by the public market were last revised in 1993.

## Expenditure Patterns

***There has been a sustained increase in the city's expenditures since 2006.*** Except for a spike in spending in 2009, total expenditures grew from Php294.8million in 2006, to Php632.6 million in 2011. This represents an annual average increase of 16.5 percent in current prices. From 2007-2011, current operating expenditures registered an increase of 11.1 percent per annum, slower than the 24.6 percent growth in capital outlay.

***The city has one of the highest per capita expenditures among second-class cities in the last three years.*** Its per capita spending

Chart 2: Surplus / Deficit in Financial Operations, 2001-2011



of Php4,220 per annum from 2009 to 2011 is the third highest among second-class cities. Only the cities of Tagaytay and Urdaneta spent more on per capita basis in the last three years at Php7,953 and Php4,233, respectively.

***The City Government has frequently been registering surpluses in its cash operations.*** Since 2001, it was only in 2003 and 2009 when the city realized financial deficits. The Php144million deficit in 2009 was largely due to the 120 percent increase in spending on general public services. Without the extraordinary increase in general public service spending, the City Government would have posted a surplus in 2009. From 2001-2011, total operating incomes registered a 7 percent increase per annum, faster than the 6.2 percent growth in total expenditures. Surplus in the city's financial operations amounted to an average of Php56.4million per annum. Based on the city's 2011 Statement of Receipts and Expenditures, fund balance by end of the year stood at Php659.1million. When adjusted for continuing appropriations and payment of prior year accounts payable, the city has some Php323million for appropriations and operations.

***But spending especially for much needed infrastructure is conservative relative to budget appropriation.*** In the last two years, the City Government has been under-spending across all sectors relative to its budget appropriation. It was only for current operating expenditures on health, nutrition and population where actual spending by the City Government approximated budget appropriated. Tanauan City had a spending shortfall of 16.8 percent in 2011 – this was marked improvement over the 24.5 percent under spending in 2010. Total current operating expenditures were 22.5 percent lower than the budget appropriation from 2010 to 2011.

***The degrees of under spending were largest for economic services, and social services and social welfare at 37.6 percent and 24.7 percent, respectively.*** Actual capital spending in 2010 was about 40 percent lower than what was appropriated in the budget. However, the City Government was able to correct the under spending the following year since actual capital spending exceeded budget appropriation by more than 50 percent. Budget appropriation for capital outlay was reduced by more than 55 percent in 2011.

***Spending is largely on general services and less on capital outlays.*** Current operating expenditure on general public services accounted for close to 50 percent of total expenditures from 2007 to 2011. Spending on economic services was a distant second with a share to total of 16.3 percent. Capital outlays during the five-year period amounted to Php78.5million per annum. This represents some 14 percent of total expenditures by the city and 29 percent of IRA payments over the past five years. Prior

to the full payment of its loan from the MDFO by end of 2008, principal repayment and interest payments accounted for about 5 percent of the city's total spending. The expenditure structure of Tanauan City is similar with other second-class cities. Spending on general public services usually accounts for 45 percent of total expenditures, while the share of capital outlay ranges from 15 percent to 20 percent. Moreover, for cities with outstanding debts, loan amortization accounts for some 5 percent of annual expenditures.

***Important infrastructure projects are not being implemented resulting in delayed benefits for the city.*** The City Government has identified a number of infrastructure projects. However, these were not implemented due to political standstill during the previous city administration. In addition, the projects are not ready to be implemented because land is yet to be acquired and feasibility studies and detailed designs are not yet carried out or are still ongoing. The City Government also needs to “think big and long-term” in terms of identifying infrastructure programs and projects to create significant impact on its economy.

### Financial Management Capacity

***Good financial management system and financial control allow the City Government to efficiently utilize its resources.*** In terms of revenue generation, the City Government's targeted collections for calendar year 2012 was Php592million while collection was Php390million as of 30 June 2012 (66% of the targeted revenue) within the first half of the year. The targeted collections for 2012 are likely to be achieved and even surpassed. The City Government likewise generated an income of Php390million for the first semester of CY 2012 but only incurred total expenses of Php200million, thus, generating a net income of Php190million.

In terms of revenue allocation, the City Government's allocation for Personal Services of 35 percent did not exceed the ceiling of 45 percent of the total budget. However, allocation for Capital Expenditures for identified priority projects is not included in the 2012 budget. Therefore, funds for infrastructure projects and other capital expenditures will wait for next year if included in the 2013 Appropriation Ordinance.

In terms of revenue utilization, the City Government has an accumulated cash of Php683million, of which Php86million is in Time Deposits (as of 30 June 2012). The Finance Committee estimates a surplus of Php100million at the end of CY 2012. This shows that it is prudent in the utilization of resources. However, the City Government does not have any major development project being implemented – sacrificing or delaying further development of the city. Likewise, the City Government's collection of



taxes in businesses and real property are efficient in view of the computerized system. However, the system requires upgrading and updating. As discussed in the preceding section, tax mapping of business units and real properties and upgrading to GIS-based tax administration would significantly facilitate better tax collection and maximize revenue generation.

## Capacity to Access Financing

***The City Government has experienced borrowing from a government financial institution.*** The City Government previously availed of a Php80.3million loan from the World Bank-assisted and MDFO-implemented municipal finance project.<sup>10</sup> The loan proceeds were used to finance the reconstruction of the city's public market that was burned down in 2000. The loan from the MDFO was fully paid in 2008.

***Presently, the City Government has no outstanding debt.*** Using the average regular income of Tanauan City of Php577.1million over the past three years, the City Government's maximum debt servicing is estimated to be around Php115million. Depending on the annuity factor assumed in the calculation, the city's maximum borrowing capacity ranges from Php 830million to Php988million.

***The City of Tanauan was recently conferred the seal of good housekeeping by the Department of Interior and Local Government, which allows the city government to avail of loans from banks and other financial institutions.*** Only those LGUs, which have no adverse report from the Commission on Audit (COA) and have complied with the posting of the 12 financial documents required by the DILG are given the seal of good housekeeping. Moreover, under DOF Local Finance Circular 1-2012, LGUs would need to submit the following documents to the BLGF before they are issued certificates of borrowing and debt capacities: (1) seal of good housekeeping; (2) letter of request from the local chief executive; (3) certification from the local legislative body that the proposed project to be financed by the loan is included in the approved Annual Investment Plan for the current year; (4) an authenticated copy of the resolution authorizing the local chief executive to negotiate and contract a loan; and (5) proof of compliance with the full disclosure policy of the DILG.

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<sup>10</sup> Program for Essential, Municipal Infrastructure Utilities, Maintenance and Engineering Development (PREMIUMED II)

<sup>11</sup> The BLGF is the national government agency responsible for certifying the maximum calculations of the LGUs. The MBC is based on the average regular income, which is a combined total of the three-year average of locally owned sources of income and IRA payments

**Based on recent BLGF revenue figures, the city fell short of being qualified for market-based financing.** Executive Order 809 requires cities to have locally sourced income of at least 60 percent share of average regular income for three consecutive years immediately preceding the time of application. Tanauan City's share of locally sourced income to regular income is 56.8 percent in 2010, 53.4 percent in 2011, and 59.8 percent in 2012. However, improvements in the share of local incomes are expected with the implementation of the city's new revenue code.

### Procurement and Implementation Capacity

**The City Government procurement staff is reasonably proficient in the procurement of works for the type, number and size of subprojects currently being implemented.** The procurement function within the City Government is carried out by the Bids and Awards Committee (BAC) and supported by the BAC Secretariat. The Tanauan-BAC has five (5) members composed of the City Engineer, City Engineer's staff, Administrative officer, staff from the General Services Office, and a staff from the City Treasurer's office. The City Engineer heads the BAC. The BAC Secretariat provides administrative support to the BAC and is staffed by employees detailed from other offices of the LGU. Based on the timelines for procurement activities attained by the LGU, as indicated in the sample contracts shared with the project team, the procurement staff is considered to be reasonably proficient in terms of the type, number and size of subprojects carried out by the City Government.

**However, the City Government may need to strengthen its procurement and implementation capacity if it is to carry out large and complex projects.** Based on the sample shared with the project team, most works contracts are small with project costs ranging from Php200,000 to Php2million, and involving the construction of relatively simple structures with short contract duration. These generally include single to multi-storey school buildings, barangay halls, multi-purpose buildings, covered basketball courts, road concreting and drainage projects. This lack of experience in carrying out large and complex projects poses a constraint to the capacity of the City Government once it decides to embark on large complex projects. To improve capacity in these areas, the city can start by (a) preparing and publishing Annual Procurement Plans (APP) for goods and services; (b) regularly monitoring procurement activities; (c) using standard form of Contract Agreement specified in the Philippine Bidding Documents to ensure that appropriate documentation; and (d) carrying out procurement training especially for large complex projects.

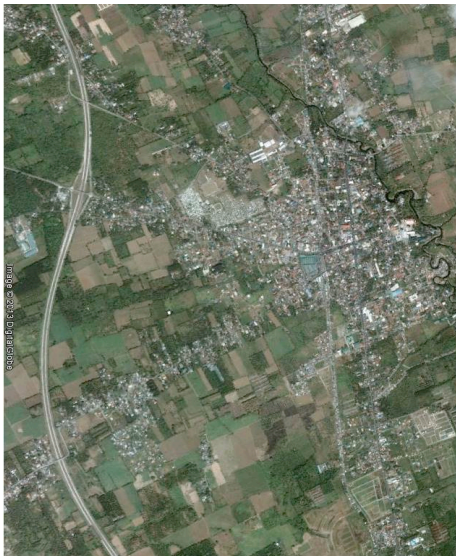


# Assessment of Tanauan City as Investment Destination

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## Assets and Opportunities

***Tanauan City offers many possibilities for investment and land development because of its strategic location, accessibility and availability of land.*** The city is



close to Metro Manila, which has a total consumer population of around 12 million. It is also situated near five cities in the CALABARZON Region – Calamba City, Tagaytay City, San Pablo City, Sta. Rosa, and Lipa City. The total combined population of these cities excluding adjacent areas is estimated at 1.2 million. The city is also close to major transport and logistics infrastructure, which connect Tanauan City to major markets for goods and services, including Metro Manila, Batangas City and the four cities in CALABARZON Region. It is halfway between the Ninoy Aquino International Airport and the Manila harbor, and the alternative seaport in Batangas City. The city can readily be accessed using the Southern Tagalog Arterial Road (STAR Toll).

Given that Tanauan land use is predominantly for agriculture, opportunity remains in making the available agricultural land more productive. Use of high value agricultural crops can be considered in maximizing the economic value of the existing agricultural land instead of being idle for speculative purposes. Underutilized agricultural land area can likewise be converted to industrial and commercial use without threatening food security.

***The City Government is in an excellent fiscal position, which if used strategically, can leverage and expedite development of the city.*** The City as of 30 June 2012 had an accumulated cash of Php683million. It also has no outstanding debt.

**City stakeholders, particularly the private sector, are keen to work with the City Government.** The current perception, sentiments and image of the Tanauan government from the point of view of the stakeholders particularly the private sector, remain positive in terms of governance, trust and confidence. However, the strategic direction, programs and projects of the city government need to be well articulated and communicated to the stakeholders.

## Threats, Constraints and Challenges

**Tanauan is marred with an image of lack of sense of order and city character, which constrains its ability to attract investments and local economic development.** Tanauan City has been experiencing dramatic economic growth in recent years. This is partly because of the improved infrastructure particularly the road network that allows ease of access to the city from other regions. However, Tanauan has not been able to keep pace with this rapid development. City development is characterized by rapid sprawl and “urban decay” (i.e., traffic, pollution, flooding, informal settlers). The city’s spatial structure shows a lack of sense of order, and city character.

**Infrastructure development has not been able to meet the demands of a growing city.** The daily traffic within the city is becoming unbearable compounded by air and noise pollution even for the locals. In recent past, flooding has been a growing concern as it creates inconvenience for the population in moving around the city proper. Moreover, the private sector has expressed serious concern on the reliability and stability of the power supply given the frequent power interruptions. Tanauan is slowly losing its attractiveness and appeal as an investment destination. It might take only a few more years that this “losing” trend becomes irreversible. Unless deliberate efforts are made, no amount of investments can gain back the competitive edge of the city.

**Tanauan has yet to come up with a land use and infrastructure plan that would guide the development of the city.** It is fundamental for Tanauan to chart its policies and course of actions particularly for land use and expansion of basic infrastructure and public services. This apparent lack of long-term strategic plan also constrains the private sector to further invest in the city. The land use plan dictates the land acquisition strategy of the City.

**Peace and order has been historically challenging.** City Government data revealed that crime incidence especially against persons and property has been increasing in recent years. It is important to note that restoring peace and order is a priority of the new City Government.

***Internal politics seem to be a stumbling block in decision-making process within Tanauan government.*** This results in a "status quo" or a conservative approach in implementing short- and long-term public investments. This "conservatism" or risk-averse mindset is prominent especially during local election seasons. Immediate past officials tend to be careful in making strategic and even day-to-day decisions, worried of potential adverse voter reaction. A good illustration is the reluctance to use the large cash surplus or to obtain loans for development projects. Government investments, even if city stakeholders consider these as urgent, are generally put on hold. For instance, the relocation of the wholesale market has been included as a priority investment since 2007 but has not been implemented. However, with the new administration, Tanauan City Government seems to be more open to take bolder decisions when it comes to the long-term investment programs and projects and the financing options for these investments.

***City Government needs to strengthen its planning and service delivery capacities.*** While the City Government has a list of investment programs and projects as indicated in the City Development Plan, it may need to have a coherent approach to further prioritize these programs and projects and to come up with short- and long-term anchor development programs and projects for specific sectors such as agriculture and industry. The lack of clarity in the overall strategic direction of Tanauan raises questions like: Is Tanauan a trading hub? An investment corridor? A bedroom community? Or just a by-pass access to bigger cities like Batangas City? The Development Plan does not reflect the overall thrusts of the city and the coherence of the identified investment programs and projects with its vision and mission. While all LGUs are mandated to appropriate in its annual budget no less than 20 percent of its annual IRA for development projects, Tanauan budget allotment seems to focus more on addressing operational needs rather than for development purposes.

***Readiness to implement large complex projects is wanting.*** The city lacks a land use and short- and long-term infrastructure plan, and its identified projects are at the very early stage of preparation (i.e., no feasibility studies and DED yet, and land has not been acquired). In addition, the City Government has generally carried out small infrastructure projects with project costs ranging from Php200,000 to Php2million, and involving the construction of relatively simple structures with short contract duration. The City Government would need to beef up its procurement and implementation capacities.

***Considering the relatively similar geo-physical attributes with neighboring towns such as Sto. Tomas, Tanauan may likely lose its investment appeal unless deliberate immediate actions are carried to address development constraints.*** Tanauan is part of the emerging metropolitan area of Northern Batangas, a fast-rising

regional growth center south of Metro Manila. Thus, it can potentially be an economic hub. However, the lack of action to address major development issues such as provision of basic infrastructure and public services, and lack of aggressiveness to make the city more attractive to investments in recent years could compromise its position in provincial and regional development. Market forces could lead to a shift of investments to more attractive neighboring areas. Deliberate actions to avert this situation from happening are therefore necessary. A “Do Nothing” scenario should not be an option to Tanauan if the city wants to remain competitive.

***However, there is high potential for the new LGU administration to change the course of development of the city.*** Today offers great opportunity for the new LGU administration to change the course of development in the city. City stakeholders, particularly the private sector, are very interested and keen in working with the City Government. However, the strategic direction, programs and projects of the LGU have yet to be well articulated and communicated to them. Therefore, the new administration can do better by addressing peace and order problems in the city, exhibiting political maturity, carrying out serious long-term planning and committing to implementing a sensible investment program. Development efforts can be focused on making Tanauan a city with “peace and sense of order” and where “ease of doing business” exists with the hope of gaining back its competitive advantage.

### Potential Key Investment Areas

The Tanauan City Government can pursue highly visible, short- and long-term anchor investments, which could include the following:

#### I. Improve Wholesale and Retail Trade Flow in Tanauan to Decongest Current Commercial Area

The strategic location of Tanauan remains its strength as a traditional trading hub for wholesale and retail trade in the province and region for several decades. However, there seems to be a lack of linkage between trading activities in Tanauan and its agricultural sector. Despite its predominant agricultural orientation, Tanauan has not leveraged its wholesale trade advantages, particularly crops and livestock production, which are for local and potentially export markets. The importance of trading for the agricultural sector



in terms of income generation and employment should not be underestimated. Unfortunately, the wholesale and retail trade in Tanauan has benefitted the agricultural sector of areas outside Tanauan.

Moreover, as discussed in the earlier chapter, Tanauan is losing its attractiveness and appeal in the region mainly due to inadequate power and water supply, congestion, solid waste pollution and flooding. Infrastructure has not been able to provide support to address the requirements of a “regional” trading hub. The market facilities are already cramped; streets in around these facilities can no longer accommodate the volume of traffic and transactions. In addition, the facilities generate an increasing amount of garbage, which adversely affects trading conditions specifically inside the public market. A number of residents interviewed say they resort to do their retail trade in the neighboring cities and try to avoid the market area of Tanauan because of the above-cited problems. Under present conditions, Tanauan may have reached its maximum carrying capacity to accommodate growth in the wholesale and retail trade sector. There may be a need to physically separate the wholesale market from the retail trade market in Tanauan.

#### Key Actions:

- a. Carry out project preparation studies (e.g. feasibility studies and detailed design of a possible relocation of the wholesale market, and packaging to potential investors).
- b. Initiate land acquisition and determine if relocation of the wholesale market is feasible.
- c. Upgrade the wholesale market into a modern and efficient agricultural produce distribution center. Tanauan City may consider developing a complex with the wholesale market, AAA-class slaughterhouse, integrated terminal, auction area, food processing center, cold storage, etc. This would require around 10 hectares, and should be easily accessible from the STAR toll way and old highway. The city may alternatively consider a wholesale distribution center matched with an integrated bus/jeepney terminal in the near term. An integrated transport terminal will facilitate the drop off of wholesale goods in the area. Matched with a good traffic management plan, a transport terminal will also reduce congestion in the central business district.
- d. Strengthen and expand small and medium enterprises (SMEs) and cooperatives to support the redeveloped market. Research shows that SMEs contribute significantly to the economic sustainability of a city.



- e. Reinforce the linkage between Tanauan agricultural outputs and wholesale/retail trade.
- f. Improve the retail market
  - Study the traffic flow and physical movement of goods to and from the retail market and options for medium-density parking (refer to the Redevelopment of the Urban Core section below).
  - Explore possibility of a PPP arrangement in the operation of the retail market.

Potential Investments:

Potential Project/s	Indicative Cost	Possible Source of Financing
Wholesale market	Php200M based on city engineer's estimate excluding land acquisition	LGU could finance land acquisition and required FS and detailed design studies
Integrated transport terminal	Php150M excluding land acquisition	Construction of the facilities: Loan on the infrastructure and support facilities with possible private sector participation in the operation of the facilities  LGU is securing grant funding from Department of Agriculture for slaughterhouse upgrading at the time of this study
Support facilities (cold storage, AAA-class slaughterhouse, food processing, and auction area, etc.	Php200M excluding land acquisition	
Site Development	Included in the above items	

## 2. Rehabilitate the City's Urban Core

Tanauan City has been rapidly urbanizing in the last 13 years. The city's infrastructure and services have not coped with this rapid development as a result of lack of long-term



land use and infrastructure planning. Traffic congestion is severe in the city center. The city's spatial structure and character is generally weak. Putting a sense of order through urban re-development would be necessary to revive the attractiveness of Tanauan and allow the city to position itself as an investment destination relative to the province, CALABARZON and greater Metro Manila.

**Key Actions:**

- a. Complete the Comprehensive Land Use Plan and subsequently the prioritized Comprehensive Investment Plan with strong involvement of city stakeholders. This activity has already been started through this PPIAF grant. The City Government needs to complete the process and come up with a long-term plan for the city. The land use plan needs to consider the expansion plans of FPIP as mentioned earlier and the general thrusts for the agricultural sector. The redevelopment of the Tanauan market place and other major infrastructure investments envisioned by the city can likewise be reflected in the updated land use plan. The city may likewise consider coming up with an urban design framework to improve city character.
- b. Prepare and implement a traffic management plan to improve traffic flow for both vehicles and pedestrians. This could include investing in an integrated terminal, routing, assigning designated areas for loading and unloading within the urban core, pedestrianization, and signages, among others.
- c. Complete drainage master plan and engineering design and subsequently construct drainage facilities to address flooding.
- d. Carry out greening, open space and parks improvements.
- e. Relocate the wholesale market if feasible, and rehabilitate the existing market and its periphery.
- f. Provide support services such as an engineered sanitary landfill to address solid waste problems in the city. A two-hectare lot has been procured by the previous administration in Barangay Bilog-Bilog. However, the residents in the area are strongly opposing the implementation of the sanitary landfill. A proposed MRF previously started was never operated due to this opposition. Barangay Bilog-Bilog is a residential and agricultural area. The entrance to this barangay is a relatively populated middle class housing area. It will be very difficult for the city to support a scenic residential and agricultural barangay whose waste is never collected yet will be the recipient of the outside waste. The city can explore other less populated and remote areas for an alternative sanitary landfill site. The city can tap consultants

- with extensive experience in designing a well-engineered sanitary landfill and other support facilities.
- g. Address informal settlement issues in the city through onsite upgrading. If relocation is necessary (i.e., households are located in danger zones), provide appropriate and socially acceptable relocation sites.
  - h. Improve museums and historical sites and come up with tourism program.

Potential Investments:

Potential Projects	Indicative Cost	Possible Source of Financing
Finalization of CLUP/ Preparation of CIP		LGU- own-source funds
Pedestrianization	Php10M, this amount includes sidewalk improvement, waiting sheds, pedestrian overpasses	LGU- own-source funds or part of a loan
Traffic management equipment and signages	Php20M including traffic signals and road signages	LGU- own-source funds
Drainage facilities	Php141M* based on City Engineer's estimate plus land acquisition on ROW	Loan
Improvement in open spaces, children parks, and playground, greening, etc.	Php20M	LGU- own-source funds or part of a loan
Heritage sites preservation and tourism promotion	Php5M	LGU- own-source funds and Department of Tourism funds
Community upgrading		Can be combination of LGU- own-source funds and loan proceeds
Sanitary landfill	P160M (Php40M per hectare) excluding land acquisition	Loan on the infrastructure and PPP on the operations

\*Based on City Engineer's estimate

### 3. Leverage on FPIP as an Economic Driver



The investments in the FPIP<sup>12</sup> have generated substantial benefits for Tanauan particularly in the increase in local revenues for the City Government in the form of real estate taxes. However, the investment made by FPIP seems to be purely a "real estate" play without having it leveraged as an economic driver for Tanauan. This is in

spite of the fact that a significant portion of the FPIP area is located in Tanauan. At present, Sto. Tomas is the main entrance to the FPIP and Tanauan, unfortunately, remains just a back door entry to the investment site, which has not been easily accessible for Tanauan residents. Having another main access in Tanauan can open opportunities for local economic development such as housing and retail development. For the past several years, the FPIP has not generated a significant impact in the employment of Tanauan locals, which could have generated a multiplier effect for the city. One reason is that the skill sets of the Tanauan locals are not aligned with the labor requirements of the locators in FPIP. In short, the benefits of the FPIP investments tend to concentrate on the revenues generated from real estate taxes. It has not made significant impact as catalyst for local economic development such as employment and livelihood generation.

The City Government can leverage on the FPIP as one of the main economic drivers for the city. Even if the FPIP recently acquired additional land in Sto. Tomas for its expansion plans, with the anticipated sustained economic boom in the Philippines, Tanauan can offer FPIP other adjacent sites within Tanauan to further expand FPIP's existing industrial park for foreign-based locators. This provides an opportunity for the City Government to negotiate with FPIP for an entrance in Tanauan.

#### Key Actions:

- a. Develop main access road (Tanauan entrance) especially in the context of FPIP expanding its area; new entrance should be one closer to STAR network and accessible from the City Proper.

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<sup>12</sup> The FPIP is a joint venture between the First Philippine Holdings, Inc. and the Sumitomo Corporation of Japan. About 50% of the FPIP property is located in Tanauan City, while the remainder is in the municipality of Santo Tomas.

- b. Negotiate with FPIP on the following areas: facilitate land acquisition, identify appropriate location of Tanauan entrance, and facilitate private sector investment and entrepreneurship in the provision of support services (e.g., housing of employees, recreational facilities, restaurants, and other amenities). The location of this new Tanauan Gate should be properly coordinated and reconciled with the existing roads within FPIP. At this stage in the processing zone, the city should be prepared for its cost, which includes the cost of construction plus the cost of right-of-way. The current backdoor could still be retained and be developed as an auxiliary gate to serve as entrance/exit of vehicles/pedestrians within the vicinity. This vicinity and its community can be tapped to serve primarily as a dormitory or temporary housing to FPIP employees.
- c. Encourage close collaboration with FPIP locators in linking city resources/residents with needs of FPIP, particularly on employment. Gain better understanding on the employment requirements of FPIP locators; provide skills upgrading and educational/vocational training support to match the requirements of FPIP possibly through the help of the Technical Education and Skills Development Authority (TESDA).
- d. Carry out community development programs to enhance capacity and character building among the adult residents as well as with the young as in the case of Barangay Olango.
- e. Encourage recreation/amenities provided by Tanauan City residents to FPIP workers (entrepreneurial activities).

Potential Investments:

Potential project/s	Indicative Cost	Possible Source of Financing
Access road (Tanauan entrance of FPIP)	Php240M (Php120M/km) plus land acquisition	Loan/LGU- share
Community development programs for barangays adjacent to FPIP	Php10-20M	LGU- own source funds, grants from locators and TESDA for skills development
Support facilities		Private sector, PPP

4. Improve agricultural productivity

Agriculture seems to be a neglected sector with the existence of underutilized and/or idle lands. Under the present land classification, Tanauan City is predominantly an agricultural area. However, no significant investments have been allotted for programs and projects to revive the agricultural sector of the city. The use of agricultural areas remains a backyard economic activity for the Tanauan residents and has not been looked at from a strategic perspective as a potential growth area. In recent past, opportunities in the agricultural areas are more speculative and biased towards land conversion for residential and/or industrial use rather than focus on agricultural development efforts on a large scale.

#### Key Actions:

- a. Enhance linkage between agricultural sector and the wholesale/retail trade and revive the agricultural sector. Promote active private sector participation through SMEs in the trading of locally produced agriculture products with assistance from the Department of Trade and Industry (DTI).
- b. Create an enabling environment to gain interest in the agricultural sector (i.e., PPP arrangements, incentive schemes, establishment of farmers cooperatives/SMEs) and impose possible disincentives like taxation on idle lands.
- c. Coordinate with regional line agencies such as the Department of Agriculture in identifying suitable crops for Tanauan.
- d. Focus on high value and space saving crops that are in demand in Metro Manila and surrounding regions.

#### Potential Investments:

Potential project/s	Indicative Cost	Possible Source of Financing
Capacity development programs	Php12M	LGU- own source funds
Organizing/strengthening cooperatives and SMEs	Php4M	LGU- own source funds and DA/DTI funds
Infrastructure support*		

\* Beyond the scope of the study

### 5. Create an Enabling “Investor-friendly” Environment

Past experiences show that overall good governance creates a sustainable economic



environment. While politics play a significant role in Tanauan's governance, a good policy environment provides "order" in public administration. Reforms in revenue generation and an "investor-friendly" environment can likewise create a more sustainable investment environment.

#### Key Actions:

- a. Complete CLUP and CIP with strong involvement of city stakeholders.
- b. Review and reformulate a "private sector friendly" Investment Code and Revenue code to further boost investments from the FPIP locators to Tanauan adding revenues for the local government. The city government has prepared a Tanauan City Investments and Incentives Code but has yet to be ratified by the *Sangguniang Panglungsod* (city council). The code provides for the creation of the Tanauan City Investments and Incentives Board, which is primarily responsible for the regulation and promotion of investments in the city. Preferred investment areas listed under the code include light manufacturing, agriculture, tourism-related, and infrastructure projects. The fiscal incentives provided by the code include full exemption from the payment of business taxes and moratorium on the application of any increase in the real property tax in the next five years.
- c. Establish a one-stop shop and lead office for planning and executing economic development strategies, and liaising with and facilitating the needs of private investors.
- d. Continue capacity strengthening of City Government staff and officials to identify, prioritize and implement investment programs and projects.
- e. Install a computerized system to enhance revenue collection like enhancing the RPTA system by incorporating geographical information system (GIS) tools.

#### Potential Investments:

Potential project/s	Indicative Cost	Possible Source of Financing
Completion/preparation of land use and investment plan	-	LGU-own source funds
Formulation of Investment and Incentives Code	-	LGU-own source funds
Computerized system to enhance revenue collection	Php10M	LGU-own source funds
One stop shop facility	Php10M	LGU-own source funds

Capacity- strengthening of City Government staff and officials	Php 6M	LGU-own source funds
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#### 6. Expand Basic Public Services (water, sanitation, education, health, energy)

Tanauan City has generated substantial local revenues in recent years. The level of revenues is higher compared to many Philippine cities the size of Tanauan. However, spending for basic infrastructure and public services has been conservative, and Tanauan City constituents have not felt the benefits of the good revenue situation, whereas it is in a very good position to increase the delivery of such social services.

Potential Project/s	Indicative Cost	Possible Source of Financing
Water supply	-	Loan on the investment and PPP on the operations
Desludging and wastewater treatment facilities	-	Loan on the investment and PPP on the operations
Health care centers/hospitals/maternal clinics	-	LGU-own source funds and PPP on the operations
Public schools and facilities	-	LGU-own source funds
Power supply – Tanauan needs to have representation in Batelec at the board level	-	c/o Batelec or possibly through partnership with Meralco

\* Beyond the scope of the study

### Next Steps on the Key Investment Areas

The following are the recommended next steps:

1. Finalize the CLUP in consultation with city stakeholders.
2. Review the long list of investment projects and prioritize to come up with the City Investment Plan consistent with the CLUP and in consultation with the stakeholders.
3. Undertake matching of investment projects with financing sources.
4. Obtain approvals on the above plans from concerned stakeholder individuals, groups, and institutions and set these plans as the blueprint for Tanauan's short- and long-term investment strategies.



5. Finalize financing strategy.
6. Carry out critical activities like project preparation, design and packaging through the help of experts/consultants and initiate the land acquisition activities as necessary.
7. Implement programs and projects as planned with the involvement of the private sector as necessary.

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