

### ### Title

**\*\*Lucena D. Demaala v. Commission on Audit\*\***

### ### Facts

1. **\*\*Enactment of Local Ordinance\*\***: The Sangguniang Panlalawigan of Palawan enacted Provincial Ordinance No. 332-A in 1995, which set an additional levy on real property tax for the Special Education Fund (SEF) at 0.5% of the assessed value.
2. **\*\*Implementation in Narra, Palawan\*\***: Lucena D. Demaala, then Mayor of Narra, Palawan, implemented the ordinance by collecting the 0.5% SEF levy through the municipal treasurer.
3. **\*\*Audit Rights\*\***: Audit Team Leader Juanito A. Nostratis, on August 7, 2003, noted a supposed deficiency due to the 0.5% rate versus the 1% rate stipulated under Section 235 of Republic Act No. 7160 (Local Government Code of 1991).
4. **\*\*Issuance of Notice of Charge\*\***: On August 30, 2004, Regional Cluster Director Rodolfo C. Sy issued Notice of Charge No. 2004-04-101 amounting to ₱1,125,416.56 against Demaala, the municipal treasurer, and SEF payors.
5. **\*\*Motion for Reconsideration and Appeal\*\***: The Municipality of Narra filed a Motion for Reconsideration, which was denied. Subsequently, they filed an appeal with the Commission on Audit's Legal and Adjudication Office, which was also denied.
6. **\*\*COA Decision and Subsequent Appeal\*\***: In 2008, the Commission on Audit (COA) affirmed the denial but modified the liability to include former Vice Governor Joel T. Reyes and Sangguniang Panlalawigan members. Motions for reconsideration by both Demaala and the implicated provincial officials were denied in 2011.
7. **\*\*Petition for Certiorari\*\***: Demaala filed a Petition for Certiorari with the Supreme Court, asserting grave abuse of discretion by the COA.

### ### Issues

1. **\*\*Deficiency in Additional Levy Collection\*\***: Whether the COA committed grave abuse of discretion in holding that there was a deficiency in the Municipality of Narra's SEF collections.
  - **\*\*Sub-issue\*\***: Whether a municipality, city, or province may impose an additional SEF levy at a rate less than 1%.
2. **\*\*Personal Liability of Demaala\*\***: Whether the COA committed grave abuse of discretion in holding petitioner Demaala personally liable for the deficiency.

### ### Court's Decision

1. **Legal Basis for Reduced Levy Rate**:

- The Supreme Court found that setting the SEF levy below 1% is within the taxing power of local government units (LGUs), aligned with the constitutional principle of local autonomy.
- **Reasoning**: The Constitution grants LGUs the power to create their own sources of revenue subject to congressional guidelines. The Local Government Code provides that LGUs “may” impose a 1% levy, indicating a maximum rather than a strict minimum mandate. This flexibility supports local fiscal autonomy.

2. **Grave Abuse of Discretion**:

- The COA’s insistence that LGUs cannot set a rate less than 1% was deemed an error. The Supreme Court emphasized the permissive language in Section 235 of the Local Government Code and the broader constitutional context favoring local autonomy.
- **Holding**: The COA acted outside its jurisdiction in enforcing a strict 1% levy mandate, contradicting the presumed flexibility allowed by the law.

3. **Personal Liability of Demaala**:

- The Supreme Court ruled that Demaala could not be held personally liable for acting in accordance with the Provincial Ordinance.
- **Reasoning**: The ordinance was presumed valid, and enforcing it in good faith absolves municipal officials from personal liability for collections made under its guidance.

**### Doctrine**

- **Local Fiscal Autonomy**: LGUs have the discretion to determine their revenue sources and tax rates in alignment with local fiscal autonomy, provided they do not exceed the specific legislative permissions.
- **Statutory Interpretation in Favor of Autonomy**: Ambiguities in laws affecting LGUs’ taxing powers should be resolved favoring local autonomy, consistent with the constitutionally mandated decentralization.

**### Class Notes**

- **Elements of Local Fiscal Autonomy**:
- LGUs can create their own revenue sources subject to guidelines set by Congress (Art. X, Sec. 5, 1987 Constitution).
- Taxing powers must be interpreted in favor of LGUs (*City Government of San Pablo v. Reyes*).
- **Section 235 of Local Government Code**:
- Permissive additional levy for SEF (up to 1%).

- Grants discretion to LGUs to set levy rates.

### ### Historical Background

- **\*\*Local Autonomy Evolution\*\***: The 1935 Constitution was silent on local autonomy, with centralized control in the President. The 1973 Constitution introduced local autonomy, though it remained largely theoretical during Martial Law. The 1987 Constitution strengthened local autonomy by granting fiscal independence.
- **\*\*Local Government Code of 1991\*\***: Implemented the decentralization mandate of the 1987 Constitution, providing LGUs with significant revenue-generating powers and greater administrative discretion.

This case underscores the recognition of local government units' discretion in fiscal matters, supporting the principle of decentralization and local autonomy envisaged by the 1987 Philippine Constitution.