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Índices FIRJAN

IFGF 2017
ÍNDICE FIRJAN DE GESTÃO FISCAL

Ano-Base 2016

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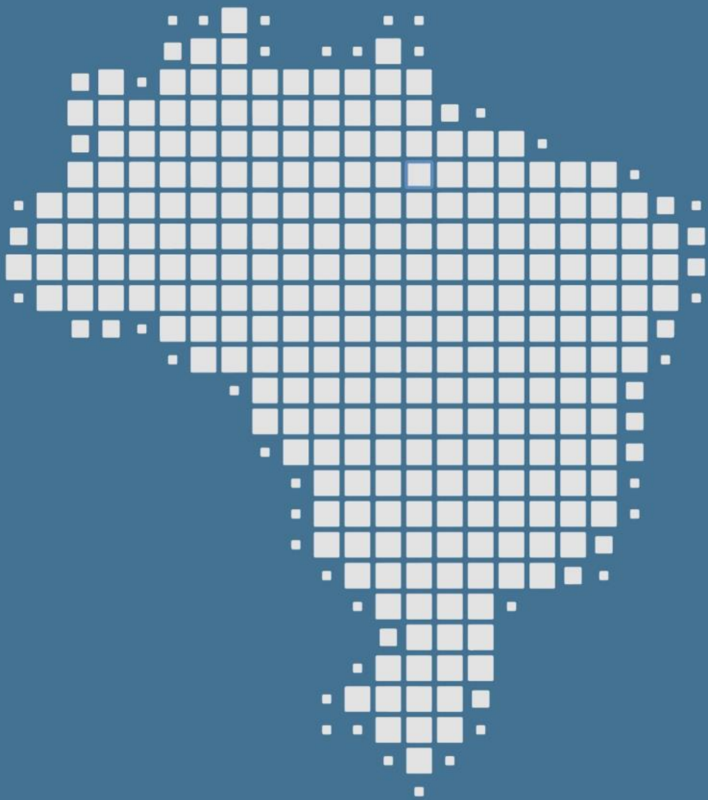

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Esta publicação contempla os seguintes temas:

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FIRJAN FISCAL MANAGEMENT INDEX 2017

(ÍNDICE FIRJAN DE GESTÃO FISCAL – **IFGF** 2017)

Base year 2016

MUNICIPAL HIGHLIGHTS

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SUMMARY

EXECUTIVE SUMMARY

Although Brazil has one of the highest tax burden**s** in the world, the adjustment of public accounts became the main economic problem of the country. Several states and municipalities are on the verge of insolvency, besides having as an aggravating circumstance the fact that they are already not complying with the rules and regulations established by the Fiscal Responsibility Law - FRL (Lei de Responsabilidade Fiscal - LRF). This means that, in addition to fiscal risks, there are social and political-institutional risks as well.

This edition of the **FIRJAN Fiscal Management Index** - **IFGF** [1] presents a complete X-ray of the fiscal crisis in Brazilian municipalities, based on unprecedented and recently published data by the National Treasury Secretariat - NTS (Secretaria do Tesouro Nacional - STN). The city halls are responsible for administering a quarter of the Brazilian tax burden, that is, over R$ 461 billion, an amount that exceeds the public sector budget of Argentina and Uruguay together.

The FRL, in its article 51, determines that, until the 30th of April of every year, municipalities must forward their accounts regarding actions of the previous year to the NTS (STN). The NTS then has 60 days to make this information available to the population[2]. Despite this rule, until the 3rd day of July 2017, data of the 1,024 municipalities were not readily available or they presented inconsistencies which prevented analysis[3]. This means that 18.4% of the 5,568 [4] Brazilian city halls did not provide transparency in the administration of their revenue management. Therefore, according to the 2016 data, the accounts of 4,544 municipalities in which 177,8 million people live, i.e. 87.5% of the Brazilian population, have been evaluated.

The IFGF is composed of five indicators: Own Revenue, Staff Cost, Investments, Liquidity and Cost of Debt. Understanding these results is simple: the scores range from 0 to 1: the closer to 1, the better the fiscal situation of the municipality in the studied year.

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[1] The IGFI adds to other studies and technical notes (TN) published by FIRJAN in the fiscal area, all of them available at www.firjan.com.br : TN 2017: Fiscal situation of the states; TN 2016: Tax burden of the industry; TN 2016 Fiscal adjustments and goals for the public debt; TN 2016: Reduction of fiscal incentive; TN 2015: Fiscal challenge in Brazil and in the world.

[2] According to this, the 30th of June 2017 was the legal deadline for the disclosure of data to the public.

[3] The Methodological Attachment lists the 1.024 municipalities where it was not possible to accomplish the analysis due to lack of official data. From this total, it was not possible to analyze the accounts of 87 municipalities that failed to present consistent data, as well as the accounts of 937 municipalities that failed to disclose their accounts on the deadline set.

[4] Brasilia and Fernando de Noronha were not analyzed because they do not have a city hall.

The main IFGF results are as follows:

- The results reinforce the extent and depth of the Brazilian fiscal crisis, which undoubtedly is not restricted to the federal and state administrations. It is quite the opposite. According to the 4,544 municipalities analyzed, 3,905 (85.9%) presented a difficult or critical fiscal situation (Concept C or D in the IFGF); only 626 (13.8%) were in a good fiscal situation (Concept B) and only 13 (0.3 %) were in an excellent fiscal situation (Concept A). Thus, 2016 was the year with the highest percentage of municipalities in a difficult fiscal situation and with the lowest number in an excellent situation within the entire IFGF series, which began in 2006.

- The Brazilian fiscal problem is structural and common to the three levels of government; it is related to the high budget share involved with compulsory expenditures, notably personnel expenses. Thus, in times of revenue decline, such as the current one, there is little room for maneuver to adjust expenditure to the levy capacity, leaving the public accounts extremely vulnerable to the economic situation. In municipalities, this situation is exacerbated by chronic dependence on transfer of revenue from the states and from the Union. Moreover, since municipalities have little or no access to the credit market, they increasingly postpone expenses through accounts payable as a source of financing, as it happens in the states.

- The analysis of IFGF indicators perfectly illustrates this diagnosis. *The IFGF Own Revenue* (0.2528 points) is the lowest of the five indicators, reflecting the chronic dependence on state and federal transfers. The high fixed budget share assigned for compulsory expenditure portrayed by *IFGF Staff Cost* (0.5073) largely explains the very low level of *IFGF Investments* (0.3949). In fact, less and less room for investment in the public budget has been left. The excellent result of the *IFGF Cost of Debt* (0.8306) shows that debt has not been an option to close the accounts for most city halls. The accounts payable have become the traditional form of financing, which in turn explains the low *IFGF Liquidity* (0.5450).

- *IFGF Own Revenue* shows a significant imbalance between the volume of revenues and own levy in most Brazilian municipalities. In 2016, 81.7% of the Brazilian cities received Concept D in the *IFGF Own Revenue*, which means that 3,714 did not generate even 20% of their revenue in 2016. Only 136 municipalities across the country obtained Concept A in the *IFGF Own Revenue* for having collected over 40% of their revenue through municipal taxes. In this group, the average population is 130 thousand inhabitants, against an average of 9 thousand inhabitants in the municipalities with Concept D in the indicator.

- The *IFGF Staff Cost* revealed that 406 of the city halls already reached the prudential limit of 57% of current net revenue - CNR (RCL) established by the FRL. In a worse situation, other 575 city halls exceeded the legal limit of 60% of the CNR and received a zero score and a Concept D in this indicator - Macapá (AP) is the only capital of this group. Throughout Brazil, only 144 municipalities (3.2%) received Concept A because they spent less than 40% of the budget with staff cost - among them only one capital, São Paulo, achieved this result. Despite this risky scenario, approximately 30% of all city halls (1,322) presented good management of staff cost (Concept B).

- In face of a budget which is increasingly impeded with compulsory expenditures, the device of postponing expenditures via accounts payable has been institutionalized as the main source of financing and budget adjustment. In a real scenario, *IFGF Liquidity* verifies if municipalities have sufficient funds to cover postponed expenses in the following year. Since it was their last year in office[5], municipal managers made a great effort to hand over the municipalities with enough cash to cover the postponed expenses. This occurred in 84.3% of the municipalities analyzed. Nevertheless, 715 municipalities (15.7%) ended 2016 without cash to cover accounts payable in the following year, and therefore obtained zero score in the *IFGF Liquidity* (Concept D). All in all, these city halls left an estimated bill of over R$ 6.3 billion to be paid by the next managers. Two capitals belong to this group: Campo Grande (MS) and Goiânia (GO).

- The last year in the office is typically when municipalities invest the most, on average 20% more than in the previous three years. However, in 2016, the economic crisis reversed this logic and demanded a large cut in investments. In 2016, only 6.8% of the cities' budget were allocated to investments, the lowest percentage since 2006. Comparing to the previous year, municipalities stopped investing R$ 7,5 billion. When distributing the municipalities according to the concepts established, four out of five municipalities (80.6%) received Concept C or D in the *IFGF Investments*. This means that 3,663 cities did not invest even 12% of the budget. Nearly two thirds of these municipalities are concentrated in the Southeast (33.9%) and Northeast (31.6%), which corresponds to 1,243 and 1,157 municipalities, respectively. Among the states, São Paulo (522), Minas Gerais (625) and Bahia (263) concentrated the largest number of municipalities with low investment.

[5] Article 42 of the FRL (LRF): "In the last two quarters of his term, the holder of Power or body referred to in art. 20 are forbidden to incur an obligation of expense that cannot be fully fulfilled, or which has installments to be paid in the following year if there is not sufficient cash available for this purpose".

- Regarding the *IFGF Cost of Debt*, Brazilian city halls continued to be well evaluated. This was the indicator with the best result (0.8306 points). Among all the municipalities analyzed, 67.7% or 3,076 city halls received Concept A and 1,101 (24.2%) received Concept B. The truth is that municipalities have very little access to debt contracting. Throughout Brazil, only 367 (8.1%) municipalities had difficulties with the payment of interest and amortizations, and that is why they remained with Concept C or D in the *IFGF Cost of Debt*. In this group, the average population is 86 thousand inhabitants, almost three times the national average, with emphasis on the capital Maceió (AL), which remained with Concept D, and capitals São Paulo (SP) and Belo Horizonte (MG), which remained with Concept C in the *IFGF Cost of Debt*. It is worth mentioning that 10 municipalities [6] received zero score in this indicator for exceeding the legal limit of 13% of the real net revenue - RNR (RLR) for the payment of interest and amortization of debts.

- The fiscal situation of municipalities is so severe that thousands of them are already failing to comply with the main legislation on public finances, especially the Fiscal Responsibility Law (2001). In 2016, 2,091 Brazilian municipal governments violated at least one legal order: 937 did not display their accounts in a transparent manner until the deadline, 715 ended their term without leaving cash resources to honor postponed commitments, 575 declared overhead staff expenses, and another 10 recorded expenses with interest and amortizations beyond the extent allowed. The situation is even more serious in 146 municipalities that have not complied with more than one of these legal determinations.

- The analysis of the 500 largest and smallest IFGFs in the country enables the identification of determining factors for a municipality to be at the top or the bottom of the fiscal management ranking. The disparity is enormous. By comparison, the ranking leader of the IFGF, Gavião Peixoto in São Paulo (0.9053), scored ten times more than the last one, Riachão do Bacamarte (0.0858) in Paraíba. The biggest difference is in the liquidity, investments and staff cost indicators. Low own revenue is common to both groups, which shows that the dependency on state and federal transfers is a shortcoming even for many Top 500 municipalities, albeit to a lesser intensity. However, interest and amortizations are not a problem even for those that ranked worse.

[6] Cruzeiro do Sul (AC), Nazarezinho (PB), Riacho dos Cavalos (PB), Vicência (PE), Euclides da Cunha (BA), Rio Real (BA), Januária (MG), Tietê (SP), Mafra (SC) and Siderópolis (SC).

- Although the average capitals score was 31.7% higher than the national average, they presented results that ranged from Concept D to B (the score ranged from 0.3985 to 0.7651). Out of the 25 capitals analyzed, 12 were among the Top 500 in the country, including two in the Top 100: Manaus (33rd) and Rio de Janeiro (66th). Capitals showed less dependence on transfers from the states and the federal government, better management of the accounts payable, as well as lower budget share with staff. However, capitals invested less than other Brazilian municipalities (6.3% compared to 6.8% of the average CNR). This percentage is the lowest since the beginning of the series in 2006. In addition, debt represents a bigger problem for the capitals than for the rest of the municipalities of the country, even due to their greater ability to raise loans.

- In 2016, revenues from the Repatriation Law [7] prevented an even worse picture for municipalities' accounts. Out of the total volume collected, R$ 8.9 billion were allocated to the municipalities, half of which referred to the Income Tax and the other half to the fines. This led to an average increase of nearly 4% in municipal revenues. Altogether, 624 city halls escaped from being outlawed on account of revenues repatriation. A direct effect of repatriation was on the number of city halls that managed not to exceed the RNR 60% limit with staff cost. If it were not for this extra resource, 296 more city halls would also have been outlawed. Another variable affected by revenues repatriation was the relationship between accounts payable and government fund. Without these extraordinary revenues, other 328 municipalities would have failed to pay the FRL for having more accounts payable than fund resources by the end of 2016.

[7] Law 13.254 of 2016 establishes a special regime for the regularization of resources of lawful origin that have not been declared or declared incorrectly. This law is also known as Repatriation Law. In this regime, to regularize revenues, an Income Tax (IR) of 15% and a fine of the same rate on the amount were established.

THE FIRJAN FISCAL MANAGEMENT INDEX (IFGF)

Although Brazil has one of the highest tax burdens in the world, the adjustment of public accounts has become the main economic problem of the country. At the federal level, the rise of public debt motivated unprecedented constitutional determination to limit the growth of public spending, as well as the referral of fundamental reforms to assure a long-term fiscal sustainability, such as the Welfare Program Reform.

In states and municipalities, the fiscal crisis seems even more severe, since there are not even resources to pay staff and suppliers in some cases, and this often hampers the work of essential public services. In fact, several federative entities are on the verge of bankruptcy, and, to make matters worse, they are overstepping the limits imposed by the Fiscal Responsibility Law - LRF. This means that, in addition to fiscal risks, there are social and political-institutional risks.

This edition of the FIRJAN Fiscal Management Index – IFGF [8] provides a complete X-ray of the fiscal crisis in the municipalities, that are responsible for managing a quarter of the Brazilian tax burden, that is, over R$ 461 billion. To illustrate, this amount exceeds the budget of the public sector of Argentina and Uruguay together. The IFGF was built based on data of the year 2016, recently published by the National Treasury Secretariat - NTS (STN). In the process of creating the Index, it was possible to identify the challenge faced by municipal fiscal management in allocating resources, considering the budgetary constraints faced by Brazilian municipalities.

There are three outstanding points in the budget of the cities. On the revenue side, the problem is the reliance on intergovernmental transfers, which leaves the vast majority of municipalities with little control over their revenues. On the spending side, the challenge is the management of current expenditures (mainly staff costs), since a rigorous budget due to its exaggerated expansion may jeopardize resources destined for other purposes, especially investments. In addition, it has been identified that, depending on the total financial assets available, postponing expenses by registering them in accounts payable may jeopardize the execution of public policies. In fact, the lack of budget planning has generated liquidity problems for many Brazilian municipalities, considering the recurrent and widespread practice of using accounts payable as an alternative to indebtedness.

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[8] The IFGF adds up to other studies and Technical Notes (NT) published by FIRJAN in the fiscal area: NT 2017: Fiscal situation of the states; NT 2016: Tax burden on industry; NT 2016: Fiscal adjustment and targets for public debt; NT 2016: Reduction of tax incentives; NT 2015: Fiscal challenge in Brazil and in the world.

Based on this analysis, the five indicators that make up the IFGF were built: Own Revenue, Staff Costs, Investments, Liquidity and Cost of Debt. The first four have a 22.5 % share of the aggregated result. The Cost of Debt, in turn, has a 10 % share, considering the low level of Brazilian municipality indebtedness. This fact is reflected in the inability of most municipalities to contract debt, either due to the numerous restrictions they are subjected to, or to the lack of guarantees faced in the credit market. Finally, it is noteworthy that all indicators are in accordance with the parameters set by the Fiscal Responsibility Law - FRL (LRF). Below there is a description of each indicator:

IFGF Own Revenue: measures the total revenue generated by the municipality in relation to the total current net revenue - CNR (RCL)[9]. The index facilitates assessing the degree of a municipality's dependence with regard to states and Union transfers.

IFGF Staff Costs: represents how much municipalities spend on staff salaries, relative to the total current net revenue - CNR (RCL). Considering that this is the cost with the biggest share in the total municipality expenditure, this indicator measures the degree of budget rigidity, i.e. the municipality's room to maneuver in implementing public policies, particularly in investments.

IFGF Liquidity: verifies if municipalities are leaving sufficient resources to honor the accounts payable in the year, measuring the municipality's liquidity as a proportion of current net revenues.

IFGF Investments: monitors the total investments, compared to current net revenue - CNR (RCL). Paved and well-lit streets, efficient transportation, well-equipped schools and hospitals are examples of municipal investments able to increase workers' productivity and promote population welfare.

IFGF Cost of Debt: corresponds to interest and amortization expenses in relation to the total real net revenues [10] - CNR (RLR). The index evaluates the budget share committed to the payment of interest and repayment of loans contracted in previous years.

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[9] Net Current Revenue (RCL) is the constitutional concept used to calculate budget limits. It is the total municipal budgetary revenues minus the contributions of servants for their social security and social assistance system, as well as the revenues from the financial compensation of the various social security programs.

[10] Real Net Revenue (RLR) is used to calculate the limit of debt payment of states and municipalities that are renegotiated with the National Treasury and to calculate the ratio Financial Debt / Real Net Revenue. For municipalities, the RLR concept excludes from the total revenue the income resulting from credit operations, sale of assets, and voluntary transfers or donations received for the specific purpose of meeting capital expenditures.

Below: Summary table of indicators that make up the FIRJAN Fiscal Management Index (IFGF) calculation.

IFGF

Own Revenue	Staff Cost	Liquidity	Investments	Cost of Debt
Capacity to obtain revenue	Degree of rigidity of the budget	Sufficient cash resources	Capacity to make investments	Cost of debt in the long term
$\frac{\text{Own Revenue}}{\text{Current Net Revenue}}$	$\frac{\text{Staff Costs}}{\text{Current Net Revenue}}$	$\frac{\text{Funds to Meet Actual Obligations}}{\text{Current Net Revenue}}$	$\frac{\text{Investments}}{\text{Current Net Revenue}}$	$\frac{\text{Interest and Amortization}}{\text{Actual Net Revenue}}$
22.5%	22.5%	22.5%	22.5%	10.0%

The results are easily read either by the indicator or the whole index: **scores range from 0 to 1, and the closer to 1, the better the city's fiscal management** in the studied year. Four concepts were defined for the IFGF aiming to establish benchmarks to facilitate the analysis:

Concept A (Excellent Management): Results above 0.8 points.

Concept B (Good Management): Results between 0.6 and 0.8 points.

Concept C (Distraught Management): Results between 0.4 and 0.6 points.

Concept D (Critical Management): Results below 0.4 points.

Another important feature of IFGF is that its methodology enables both relative and absolute comparison, i.e., the index is not restricted to an annual image and can be compared over the years. Thus, it is possible to precisely specify if a slight rank improvement was due to the positive performance of a particular municipality or to the worse results of others.

Released in 2012, the IFGF illustrates how taxes paid by society are managed by city halls administrations. The IFGF provides greater transparency to municipal accounts through a simple and available tool for public inquiry, in which every Brazilian citizen can participate in the discussion regarding the fiscal situation of his/her city. In addition, indicators are used as a management tool for thousands of municipal managers in the country, either to build scenarios or to improve decisions regarding the correct allocation of public resources.

Data Base

In this edition, the **FIRJAN Fiscal Management Index** refers to 2016. The index is entirely based on the fiscal statistics declared by each municipal government. This official information is annually made available by the National Treasury Secretariat - NTS (STN), through the Accounting and Fiscal Information System of the Brazilian Public Department (Siconfi).

More than a thousand municipalities provide no transparency.

The Fiscal Responsibility Law, articles 48 and 51, stipulates that the municipalities must submit every year their accounts regarding the previous year to the NTS (STN) by April 30th. The NTS then has 60 days to make them available to the public[11]. Nevertheless, until the 3rd of July, 2017, the data of 1.024 municipalities were not available or had inconsistencies that prevented the analysis[12]. This number represents 18.4% of the 5,568 Brazilian municipalities. Therefore, the accounts of 4,688 municipalities, in which 177,8 million people live, i.e. 87,5% of the Brazilian population, have been evaluated.

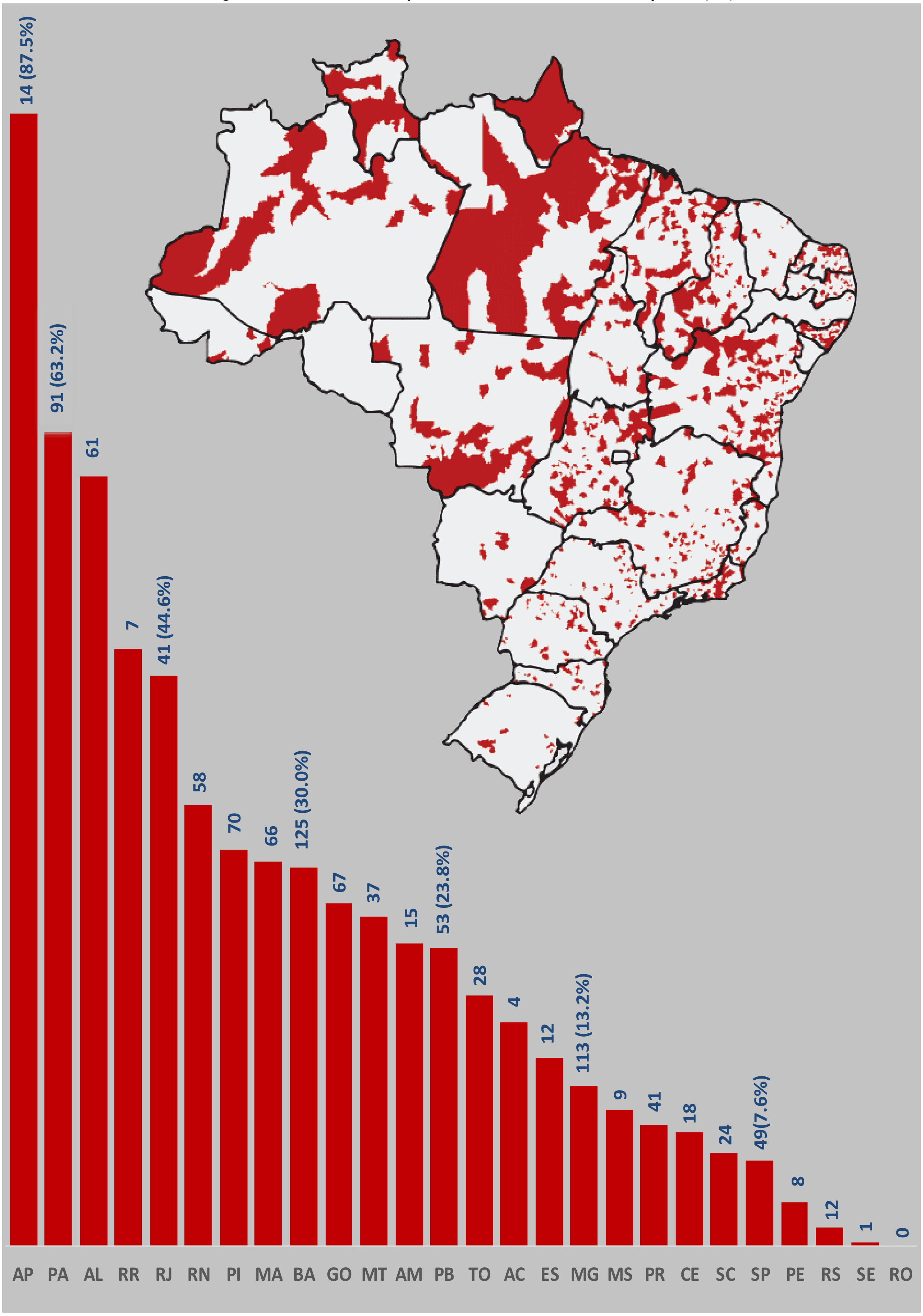
More than 25 million Brazilians, or 12.5% of the population, live in municipalities that do not provide transparency. This group calls attention because it includes large cities, such as the capital Florianópolis (SC) and populous municipalities such as São Gonçalo (RJ), Montes Claros (MG) and São José dos Pinhais (PR) - all of them with more than 300 thousand inhabitants. As the map and graph 1 show, the North region presented the highest percentage of municipalities without transparency, 35.3% of the total or 159 out of the 450 city halls in the region. In the state of Amapá, only two of the 16 city halls presented their information; in Pará, there is no transparency in 63.2% of the cities. The Northeast (25.7%) and Midwest regions (24.2%) also presented a high percentage of municipalities with inconsistent or no available data. Finally, with lower percentages, there were 215 city halls (12.9%) in the Southeast region and 77 (6.5%) in the South that did not disclose their information according to what the FRL (LRF) determines.

The inconsistency and non-disclosure of data mean an absence of transparency, which hinders social control and cost reduction in the federal entities. The highlight was the state of Rondônia, the only one in Brazil able to present consistent data available for all municipalities.

[11] Thus, June 30, 2017 was the legal deadline for public disclosure of the data.

[12] The Methodological Annex lists the 1,024 municipalities where it was not possible to carry out this analysis due to lack of official data. From this total, it was not possible to analyze the accounts of 87 municipalities for lack of consistency in the data, whereas 937 other municipalities did not disclose their accounts within the legal term.

GRAPH AND MAP 1: Percentage and number of municipalities without data available, by state (UF).



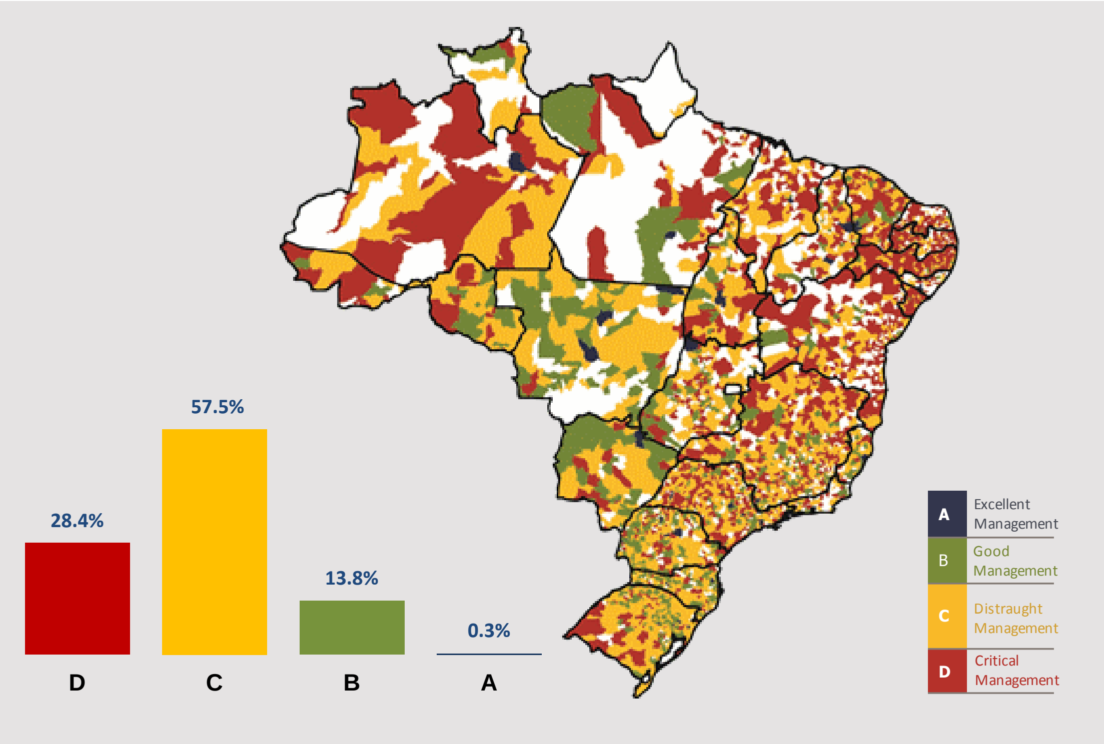
IFGF RESULTS

86% of Brazilian municipalities are in a difficult or critical fiscal situation.

The IFGF results reinforce the extent and depth of the Brazilian fiscal crisis, which undoubtedly is not restricted to the federal and states administrations. It is quite the opposite. Out of the 4,544 municipalities analyzed, 3,905 (85.9%) presented a difficult or critical fiscal situation (Concept C or D in IFGF), only 13.8% (626) had a good fiscal situation (Concept B), and only 13 (0,3%) had an excellent fiscal situation (Concept A). Thus, 2016 was the year with the highest percentage of municipalities in a difficult fiscal situation and with the lowest number in an excellent situation in the entire IFGF series, which began in 2006.

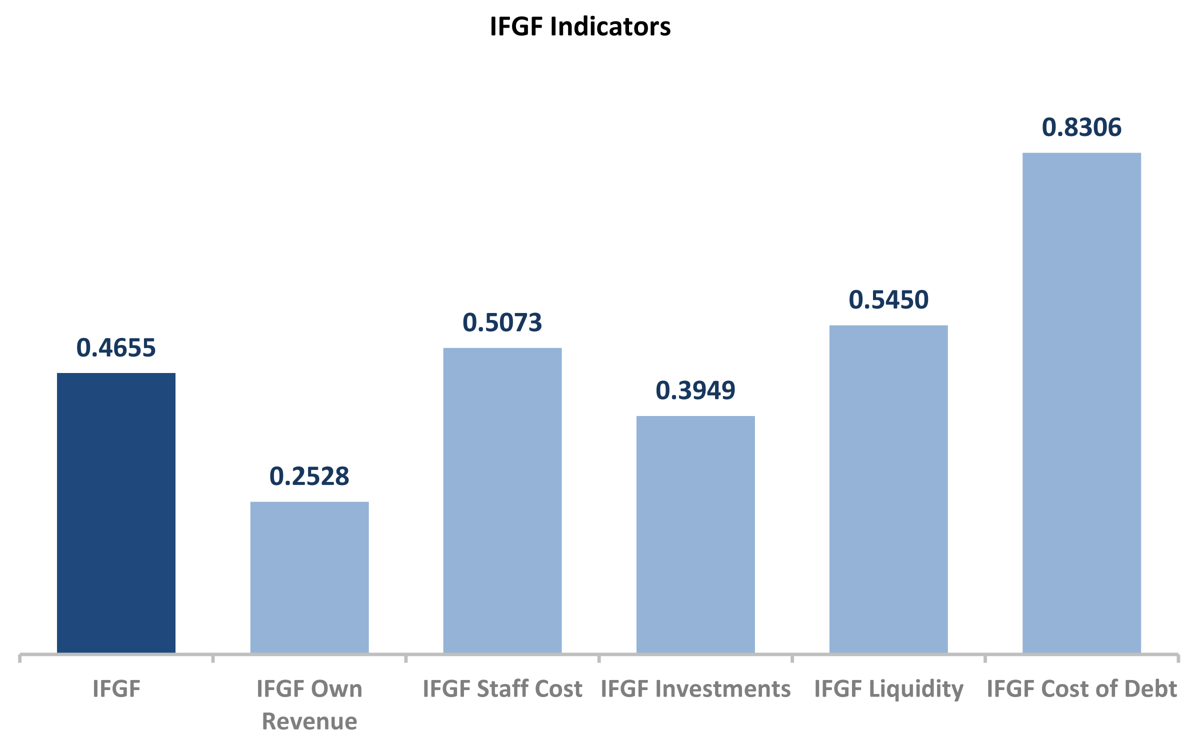
The fiscal crisis affects all the regions of the country. In map 2, the red areas (Concept D in IFGF, critical situation) and the yellow ones (Concept C, difficult situation) predominate. The Northeast concentrated the highest percentage of municipalities in these situations (94.9%). The cities in good fiscal situation, the areas in green (Concept B) and in blue (Concept A) on the map, are concentrated in the Midwest (26.1% of the analyzed municipalities) and in the South (24.7% of the municipalities analyzed).

GRAPH AND MAP 2: Distribution of municipalities according to the IFGF 2017 concept



The Brazilian fiscal problem is structural and common to the three levels of administration. It is related to the high budget commitment with compulsory expenditures, notably personnel expenses. Thus, in times of revenue decline, such as the current one, there is little room for maneuver to adjust expenditure to the levy capacity, leaving the public accounts extremely vulnerable to the economic situation. In municipalities, this situation is aggravated by chronic dependence on resource transfers from the states and from the Union. Moreover, since municipalities have little or no access to the credit market, they increasingly postpone expenses through accounts payable as a source of financing - as it happens in the states.

The analysis of the IFGF indicators perfectly illustrates this diagnosis. The *IFGF Own Revenue* (0.2528) is the lowest of the five indicators; it is the portrait of the chronic dependence on states and federal transfers. The high commitment to compulsory expenditure portrayed by *IFGF Staff Cost* (0.5073 points) largely explains the very low level *of IFGF Investments* (0.3949). In fact, there is less and less room for investment in the public budget. The excellent result of the *IFGF Cost of Debt* (0.8306) shows that debt has not been an option to close the accounts for most city halls; The accounts payable have become the traditional form of financing, which in turn explains the low *IFGF Liquidity* (0.5450). The chart below shows the IFGF indicators for the year 2016. The detailed analysis for each one follows right below.



IFGF Own Revenue

It measures the total revenues generated by the municipality, in relation to the total Net Current Revenue. Its goal is to evaluate the degree of dependency of municipalities on intergovernmental transfers.

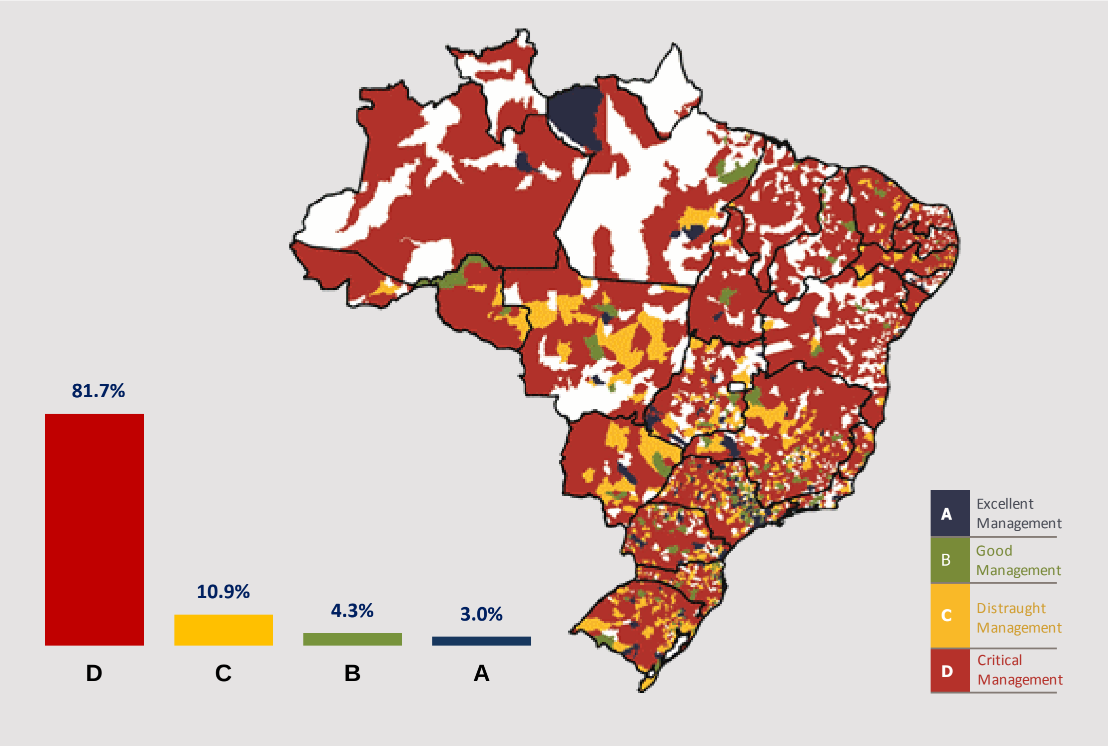
The 1988 Brazilian Constitution granted exclusive tax powers and autonomy to the subnational governments to legislate, collect and set rates. The idea behind this proposal was that the decentralization of collection would reinforce the bond between the citizen-taxpayer and the local public power, in order to increase the quality of public goods and services offered to the population. Subsequently, the FRL (LRF) 2001 reiterated that creation, forecasting and collection of taxes of municipal competence are essential fiscal management responsibility requirements. Nonetheless, the *IFGF Own Revenue* shows a significant imbalance between the volume of revenues and own levy in most Brazilian municipalities.

Chronic dependency: 82% of the municipalities did not generate 20% of their income.

In 2016, 81.7% of the Brazilian cities received Concept D in the *IFGF Own Revenue*, that is, 3,714 did not generate even 20% of their revenues in 2016. Only 136 municipalities across the country obtained Concept A in the *IFGF Own Revenue* for collecting more than 40% of their revenue through their own resources. In this group, the average population is 130 thousand inhabitants, against an average of 9 thousand inhabitants in the municipalities with Concept D in the indicator.

Northeast (93.2%) and North (90.7%) are the regions with the highest percentage of municipalities with Concept D in the *IFGF Own Revenue*. Even in the Southeast region, where 55.2% of the national GDP is located, 75.3% of the municipalities were evaluated with Concept D. This percentage was 73.1% in the Midwest region and 76.8% in the South region. Map 3, which is mostly red, leaves no doubt as to the enormous reliance on transfers in all regions in Brazil, although these transfers reach them with different intensities. On the other hand, the blue dots (Concept A) are mainly concentrated in the Southeast region, since 70 among the 136 municipalities that stood out for their high own collection were in this region. It is worth mentioning the state of São Paulo, which had 54 municipalities with Concept A. This represents 9.1% of the total number of municipalities in the state - it is the highest percentage in the country.

GRAPH AND MAP 3: Distribution of municipalities according to IFGF Own Revenue concept.



IFGF Staff Cost

It represents how much the municipalities spend with staff payment, in relation to the total Net Current Revenue. The index measures the maneuvering space of city halls to carry out public policies, especially investments.

Staff spending is the main element of the Brazilian municipality budget. Due to its rigid nature, the excessive commitment of municipal revenues to this expense should be avoided, since it implies reducing resources destined for other purposes, and ends up affecting public policies. Therefore, the FRL (LRF) established a reasonable limit and restriction for these expenses: 57% and 60% of the FRL (LRC), respectively[13].

The pursuit of an efficient fiscal management must be based on staff expense control. This is the only way to reduce the tax burden and increase public investment without endangering fiscal balance. However, contrary to this recommendation, civil servant expenditures have been jeopardizing a growing share of municipal budgets. In 2016, the budget share consumed by these expenses in the Brazilian municipalities reached 52.6%. In 2006, the IFGF first year, this percentage was 45.9%.

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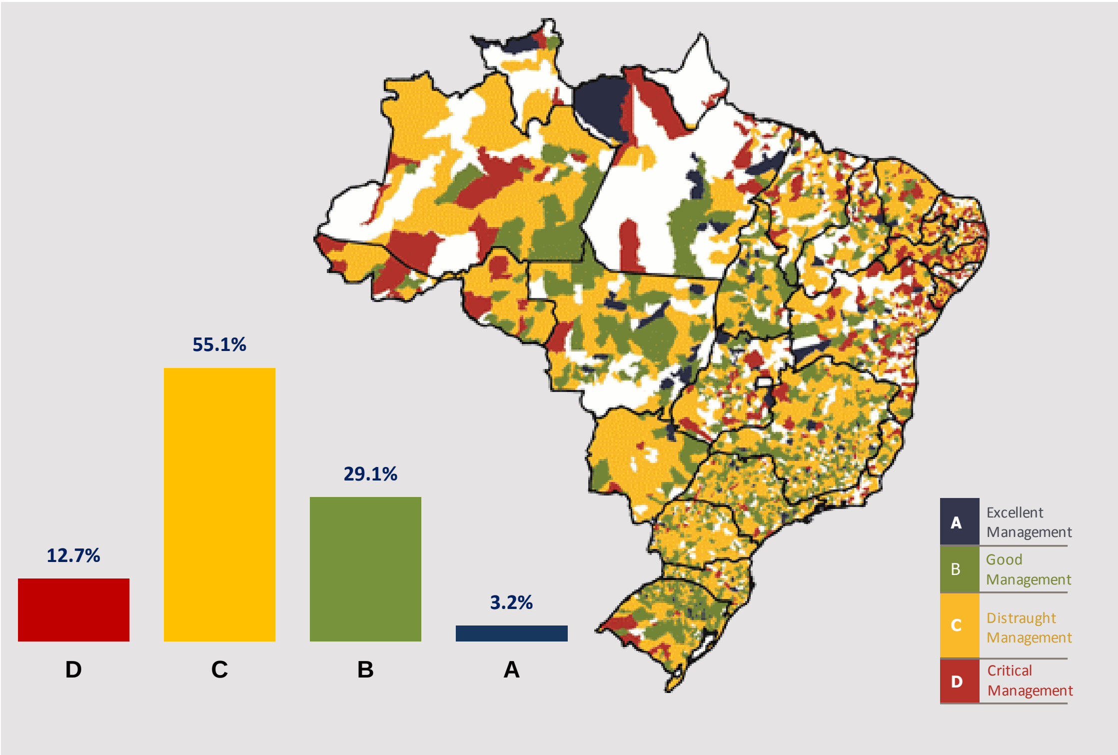
[13] In order to avoid budgetary rigidity and assure space for allocating other expenses, in 2000, the Fiscal Responsibility Law (LRF) limited staff cost to 60% of the RCL. In addition, Article 22 of the same legislation created a prudential boundary, defined as 95% of the limit (or 57% of the RCL), above which the creation of positions, jobs or tasks is forbidden, as well as other restrictions.

575 city halls exceeded the legal limit for staff cost.

More than half of the Brazilian municipalities (2,503 or 55.1%) finished their term of office last year by committing over 50% of their budgets to the civil servants' payroll, and, therefore, received Concept C in the *IFGF Staff Cost*. Among them, 406 already reached the reasonable limit of 57% of the CNR (RCL) defined by the FRL (LRF), and 575 exceeded the legal limit of 60% of the CNR (RCL) (zero score and Concept D). Macapá (AP) is the only capital of this group. In the whole country, only 144 municipalities (3.2%) received Concept A for spending less than 40% of the budget with staff - among them only one capital, São Paulo, achieved this result. Despite this risky scenario, approximately 30% of all city halls (1,322) presented good management of staff cost (Concept B).

In the *Staff Cost* indicator, there are large differences between regions. Map 4 shows a greater concentration of red dots in the Northeast, where 28.7% of the cities received Concept D. This means that 382 out of the 575 Brazilian cities which had a staff cost above the legal limit (60% of the budget) belong to this region. In the state of Sergipe this percentage reached 52.7% (39 of the 74 municipalities analyzed). In the North region, the percentage of city halls above the established limit is also high: 16.2% or 47 cities, 15 of them in Pará. In the Midwest, this percentage reached 9.6% (34) and in the Southeast, 5.4% (78). The South region, in turn, stood out for having only 3.1% or 34 cities above the legal limit. In addition, 43.1% of its municipalities (480) received Concept A or B in the *IFGF Staff Cost*.

GRAPH AND MAP 4: Distribution of municipalities according to IFGF Staff Cost concept.



IFGF Liquidity

It measures the ratio between the total accumulated accounts payable in the year and the available financial assets to cover them in the following year. That is, it verifies if municipalities are postponing expense payments for the following year without proper cash cover.

In face of an increasingly plastered budget with compulsory expenditures, the device of postponing expenditures through accounts payable has been institutionalized as the main source of financing and adjusting of budgets - not only for municipalities but also for states and federal government. In practice, *IFGF Liquidity* verifies if municipalities have sufficient funds to cover expenses postponed for the following year. In the last year of the term of office, as in the case of 2016, the LRF forbids accounts payable registration without adequate cash cover[14].

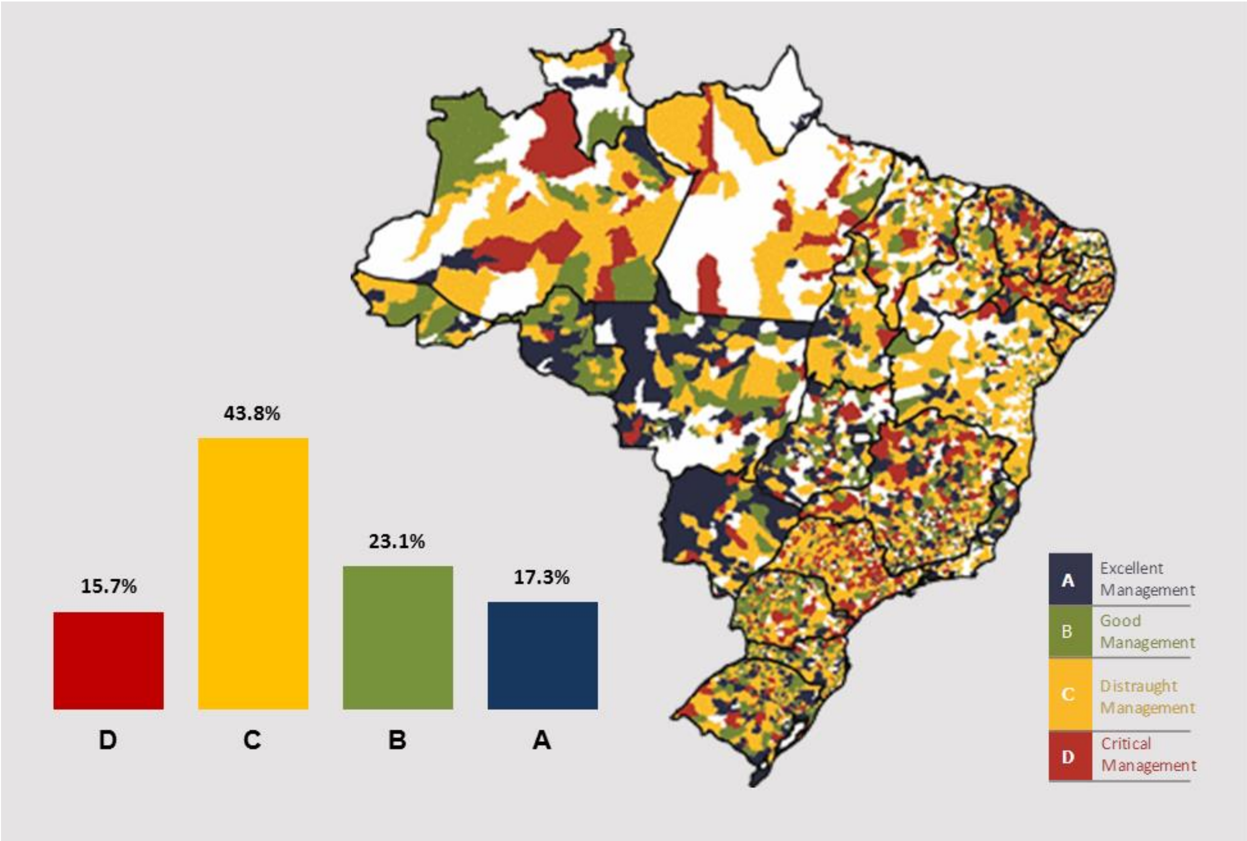
715 Brazilian city halls (15,7%) closed 2016 with their cash totally committed with accounts payable

Since it was their last year in office, municipal managers made a great effort to complete their term and hand over the municipalities with enough cash to cover the postponed expenses. This occurred in 84.3% of the municipalities analyzed. Nevertheless, 715 municipalities (15.7%) ended 2016 without cash to cover accounts payable in the following year, and therefore obtained zero score in the *IFGF Liquidity* (Concept D). All in all, these city halls left a bill of more than R$ 6.3 billion to be paid by the next managers. Two capitals belong to this group: Campo Grande (MS) and Goiânia (GO).

In the case of accounts payable, the biggest problem is in the Southeast, where 335 city halls (23.1% of the region) ended the term of office with more accounts payable than cash resources. This result was strongly influenced by the city halls of the states of São Paulo (192) and Minas Gerais (134). In the Northeast, 16.0% (213) of the municipalities were in this situation and 10.3% (30) faced the same issue in the North. The Midwest and South regions had the lowest percentage of municipalities in this situation: 8.8% (31) and 9.5% (106), respectively. In addition, the Midwest region was highlighted by 41.1% of municipalities (145) with Concept A in *IFGF Liquidity*, while in the South there were 18.8% (209).

[14] Article 42 of the LRF: "5 Article 42 of the FRL (LRF): "In the last two quarters of his term, the holder of Power or body referred to in art. 20 are forbidden to incur an obligation of expense that cannot be fully fulfilled, or which has installments to be paid in the following year if there is not sufficient cash available for this purpose".

GRAPH AND MAP 5: Distribution of municipalities according to IFGF Liquidity concept



IFGF Investments

This indicator measures the portion of municipal budget for investments

Paved and well-lit streets, good schools and hospitals are examples of municipal public investments capable of increasing the workers' productivity and promote population welfare. To Illustrate, municipalities accounted for one-third of all Brazilian public investment in 2016. However, the increasing commitment of the budget to mandatory expenditures has been leaving less room for investments.

Investments reached the lowest level in more than ten years.

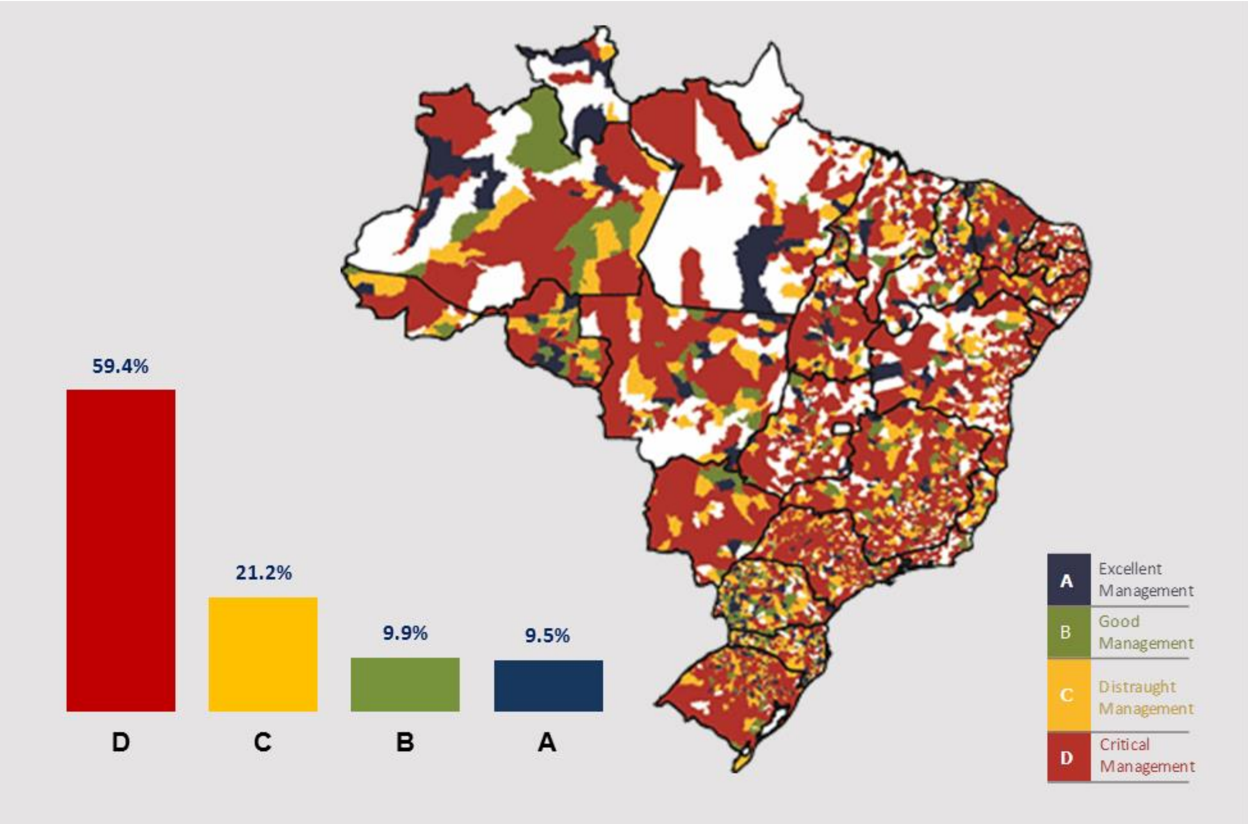
The last year of office is typically when municipalities invest the most, on average 20% more than the previous three years. However, in 2016, the economic crisis reversed this logic and required a significant cut in investments. In 2016, only 6.8% of the cities' budget were destined to investments, the lowest percentage since 2006. Comparing to the previous year, municipalities stopped investing R$ 7.5 billion.

Four out of five municipalities (80.6%) received Concept C or D in the *IFGF Investments* - this means that 3,663 cities did not invest even 12% of the budget. Nearly two thirds of these municipalities are concentrated in the Southeast (33.9%) and Northeast (31.6%), accounting for

1,243 and 1,157 municipalities, respectively. Among the states, São Paulo (522), Minas Gerais (625) and Bahia (263) concentrated the largest number of municipalities with low investment.

The high level of investment of 430 municipalities contrasted with this environment. This group invested an average of 20% of the budget, with Concept A in *IFGF Investments*. Favored by the 92 municipalities which received a maximum score, the South region had the highest percentage of municipalities with Concept A or B in *IFGF Investments* (32.0%). Subsequently, the North region (25.8%) received large amounts of federal government transfers for investments in 2016, with the state of Roraima accounting for the highest *IFGF Investment* average in the country, with 50% of its municipalities with Concept A or B in *IFGF Investments*[15]. In this group, the states of Paraná and Santa Catarina stood out for presenting 41.6% and 38.7% of their municipalities with Concept A or B in *IFGF Investments*. The distribution of the results can be observed in the map and graph 6.

GRAPH AND MAP 6: Distribution of municipalities according to the IFGF Investment concept



[15] Two funds managed by the Ministry of National Integration (MI) provided R$ 28.2 billion for the development of activities in the North Region between 2016 and 2020. In addition, the municipalities of Roraima had strong investments in 2016 focused on the areas of Infrastructure and Health, to highlight the capital Boa Vista and the municipality of Bonfim, which were top rated in *IFGF Investments*.

IFGF Cost of Debt

It evaluates the commitment of the Real Net Revenues for interest payment and amortization referring to loans contracted in previous years.

Just as important as the size of the debt is knowing the share of the budget committed with the payment of interest and amortizations, which concerns the cost of debt. Like staff cost, these expenses have stringent contractual obligations, which may be an inflexible factor in the budget. This, however, is a problem for a very small portion of the Brazilian municipalities - the vast majority of Brazilian cities (3,935) did not even claim to have a Consolidated Net Debt.

Thus, in 2016, Brazilian municipalities continued to be well evaluated in the *IFGF Cost of Debt*, which is the best of the monitored indicators (0.8306 points). Out of the total number of municipalities analyzed, 3,076 (67.7%) city halls received Concept A and 1,101 (24.2%) had Concept B. The fact is that municipalities have very little access for contracting debt. After the renegotiation of the states and municipalities debts with the Federal Government in 1997 and 2001, subnational governments were subject to several obstacles regarding the issuance of domestic or foreign bonds. Subsequently, the FRL (LRF) prevented the Federal Government from renegotiating the debts of municipalities contracted with private institutions, which limited the problem of debt to very few municipalities, notably the largest ones [16].

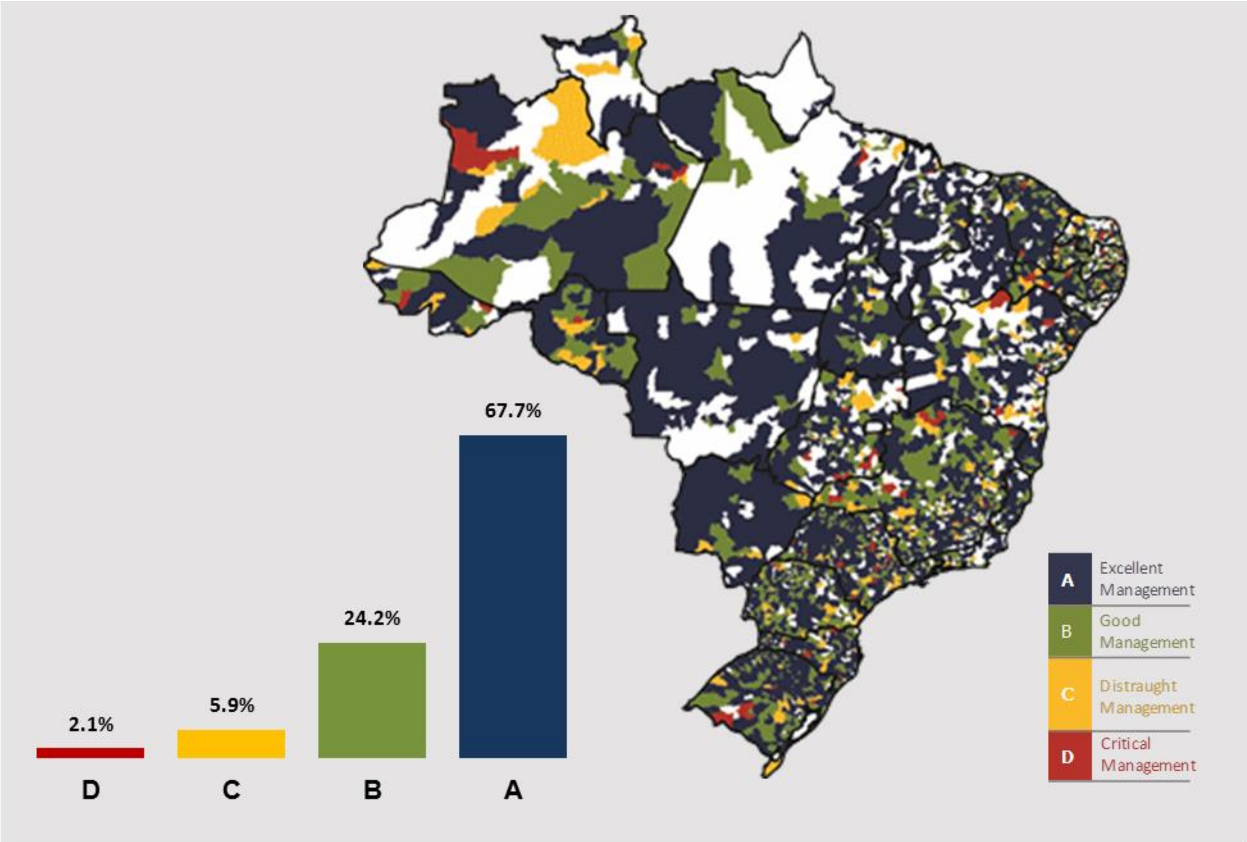
Debt with the Federal Government is not a problem for municipalities:
3.935 municipalities did not even claim to have Net Consolidated Debt.

Throughout Brazil, only 367 (8.1%) municipalities presented difficulties with the payment of interest and amortizations. That is why they remained with Concept C or D in the *IFGF Cost of Debt*. In this group, the average population is 86 thousand inhabitants, almost three times the national average, with emphasis on the capital Maceió (AL), which remained with Concept D, and to the capital cities of São Paulo (SP) and Belo Horizonte (MG), which remained with Concept C in the *IFGF Cost of Debt*. It is worth mentioning that 10 municipalities [17] received zero score in this indicator for exceeding the legal limit of 13% of the real net revenue - RNR (RLR) for the payment of interest and amortization of debts. Graph and map 7 present the distribution of *IFGF Cost of Debt.*

[16] It is worth mentioning that in 2016 the regulation of Complementary Law No. 148/14, which revised the debt indexer with the Union, brought relief for the payment of interest to a large number of municipalities. Instead of the IGP-DI plus interest of 9% per year, the debt was managed by the IPCA plus interest of 4% per annum, limited to the variation of the basic interest rate (Selic).

[17] Cruzeiro do Sul (AC), Nazarezinho (PB), Riacho dos Cavalos (PB), Vicência (PE), Euclides da Cunha (BA), Rio Real (BA), Januária (MG), Tietê (SP), Mafra (SC) and Sideró polis (SC).

GRAPH AND MAP 7: Distribution of municipalities according to the IFGF Cost of Debt concept



MUNICIPALITIES OUTLAWED

The fiscal situation of municipalities is so severe that thousands of them are already failing to comply with the main legislation on public finances, especially the Fiscal Responsibility Law (2001). According to the official statistics declared by the municipalities themselves and made available by the National Treasury Secretariat referring to 2016, 2,091 Brazilian municipalities failed to comply with at least one of the four legal determinations below:

• 937 city halls did not declare their accounts by the deadline established by law (Articles 48 and 51 of the FRL);

• 715 city halls ended their term of office with more accounts payable than cash resources (Article 42 of the FRL);

• 575 exceeded the limit of 60% of the (LRL) for staff cost (Article 20 of the FRL);

• 10 exceeded the limit of 13% of RLR for interest and amortization (MP 2,185-35 / 2001);

- 140 city halls exceeded the limit of staff cost and left accounts payable without cash coverage for the next mayor;

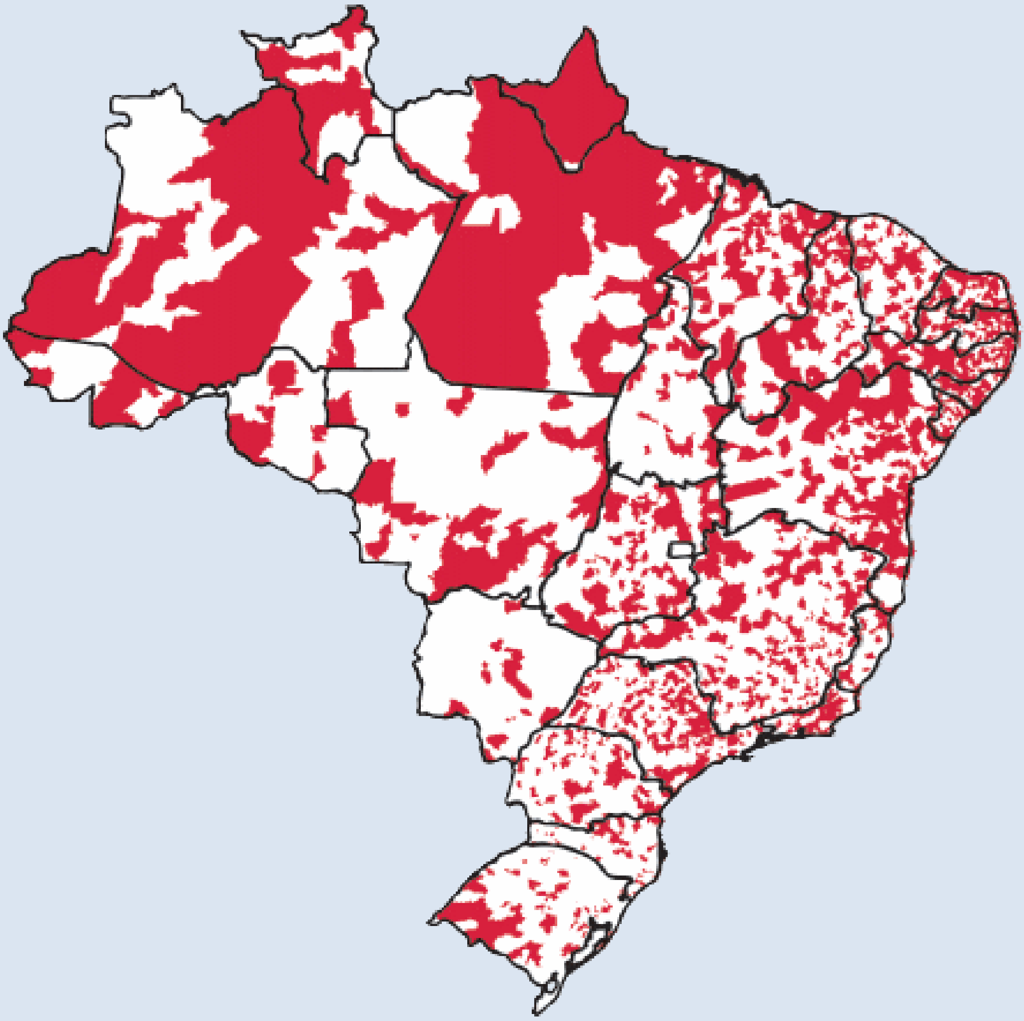
- 5 municipalities exceeded the limit of cost of debt and the legal limit for the staff;

- 1 municipality exceeded the limit of cost of debt and left accounts payable without cash cover for the next mayor.

The number which draws the most attention regards the municipalities without transparency; there were 937 in 2016. These municipalities should have declared their accounts by April to the NTS (STN), which, in turn, had another 60 days to make them available to the public. Among city halls which presented accounts according to the legal limit, 715 ended the term without leaving cash resources to honor postponed commitments for the following term, through the device of accounts payable. All in all, these city halls left an estimated sum of R$ 6.3 billion to be paid by the next managers. There is also a large number of municipalities declaring their staff cost above the legal limit of 60% of the CNR (RCL). In 2016 they were 575 municipalities. Together, these municipalities administered 8.1% of the total Brazilian municipalities' revenue, and spent R$ 1.8 billion more with staff than the amount permitted by law. Concerning debt, 10 city halls had higher interest and amortization expenses. The situation is even more serious in 146 municipalities that have not complied with more than one of these legal determinations.

The map shows that fiscal irresponsibility is present in every part of the country. In some of them, however, there is a greater concentration of outlawed municipalities. In the Northeast region, 942 city halls or 52.5% of the region's total failed to comply with at least one legal limit or were not transparent in relation to their accounts in 2016. The number is 222 or 49.3% in the North region. Not far from this reality, the Southeast (582 city halls or 34.9% in total) and Midwest (148 or 31.8%) regions have presented more than 30% of their municipalities in this scenario. In turn, the South region presented the lowest percentage of municipalities with some legal pending: 16.5%, 197 city halls.

Georeferencing – outlawed municipalities

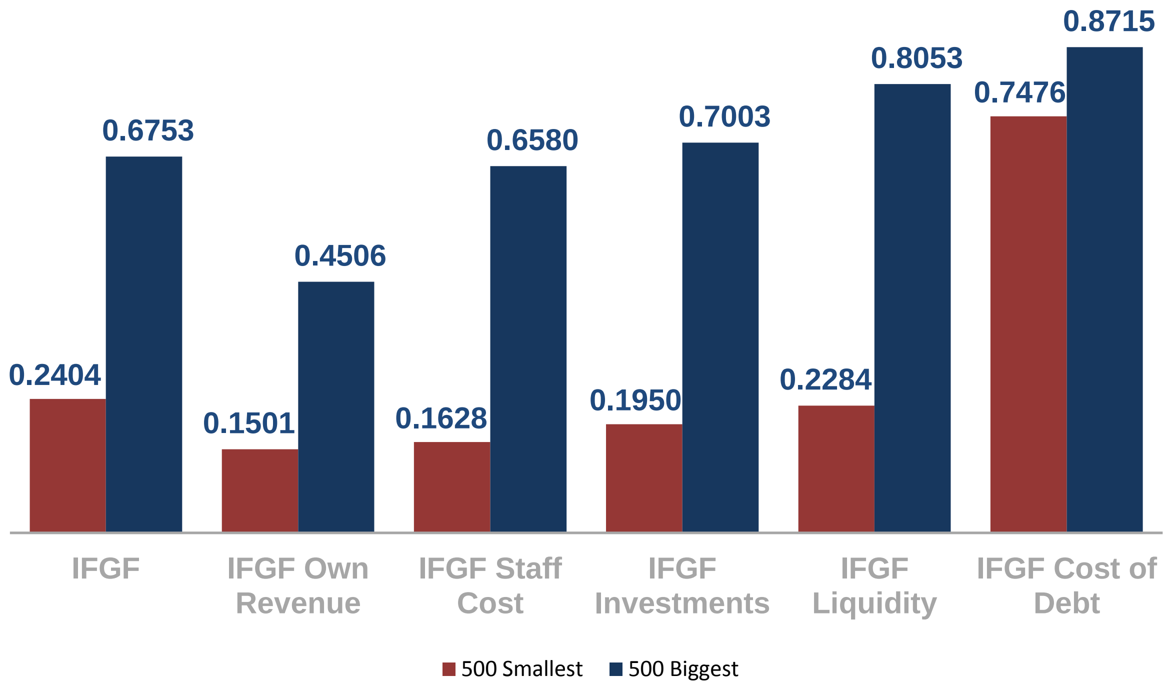


LARGEST AND SMALLEST

The analysis of the largest and smallest allows us to identify the determining factors for a municipality to be at the top or at the bottom of the fiscal management ranking. Thus, it is possible to follow a path towards a more efficient fiscal management. This is a very important exercise in the context faced, since only 13 of the 4,544 city halls evaluated have achieved excellence in the management of public resources.

Leader of the IFGF ranking, Gavião Peixoto in São Paulo (0.9053) scored ten times more than the last one, Riachão do Bacamarte (0.0858) in Paraíba. The chart below compares the average score of the 500 best and the 500 worst municipalities in the IFGF. The biggest difference is in the indicators of liquidity, investments and staff cost. Low own revenue is common to both groups, which shows that the dependency on state and federal transfers is a deficiency even for many Top 500 municipalities, albeit to a lesser intensity. However, interest and amortizations are not a problem even for most of the worst ranked.

IFGF average score and its fiscal management indicators



Even in a municipal election year, in which most managers complied with the law and ended the term with enough cash to cover the expenses left for the next administration, the budget planning - or lack thereof - was the most distinguishing aspect of the ranking extremity. Among the 500 worst overall results, 278 city halls received a zero score in the *IFGF Liquidity* for closing the term in the red; among the 500 largest, only two municipalities had such results.

One of the main reasons for this cash problem is the big fixed share of the budget with staff cost. Among the 500 cities with the worse evaluation in the IFGF, public servant expenditures consume an average of 61.9% of net current revenue - NCR (RCL). Moreover, 339 of them declared that the staff cost exceeded the limit established by the FRL (LRF). Among the Top 500, staff costs consume, on average, 48.1% of the budget, and none of the cities have exceeded the FRL (LRF) staff limit of 60% NCR (RCL).

In the municipality's budget, the combination of revenue dependency and high staff cost is harmful, mainly, for investments. In 2016, among the last 500 municipalities listed in the ranking, investments accounted, on average, for only 3.6% of the revenues of these city halls. On the other hand, the Top 500 dedicated 14.4% of their revenues to investments. Thus, while 309 city halls of the most highly rated group received Concept A or B in the *IFGF Investments*, the worst ones received only five.

CAPITALS

The capitals account for 22.7% of the Brazilian population (46 million people in 2016) and administer 28.1% of the resources held by municipalities. Unlike small municipalities - where in many cases there is not even adequate accounting competence for fiscal management - capitals have easy access to tools for an efficient management. Nevertheless, Florianópolis (SC) did not disclose its accounts within the period determined by the Fiscal Responsibility Law (LRF), which contrasts with the rest of the state of Santa Catarina, where over 90% of the municipalities have disclosed their accounts.

All in all, capitals have less dependency on states and federal administrations transfers, a better management of accounts payable, as well as they entail less of the budget with staff cost. However, despite better financial planning, capitals invested slightly less than other Brazilian municipalities (6.3% versus 6.8% of RCL). This percentage is the lowest since the beginning of the series in 2006. As for debt, it is a bigger problem for capitals than for the rest of the Brazilian municipalities, especially because capitals have a greater ability to raise loans.

Although the average capitals score was 31.7% higher than the national average, they presented results that ranged from Concept D to B (the score ranged from 0.3985 to 0.7651). Out of the 25 capitals analyzed, 12 were among the Top 500 results in the country, including two in the Top 100: Manaus (33rd) and Rio de Janeiro (66th).

At the top of the capitals ranking, **Manaus (AM)** was evaluated with Concept B in the *General IFGF*. The Amazonian capital obtained Concept A in *IFGF Own Revenue* thanks to the effort to raise tax collection [18]. In addition, it reached a maximum score in the *IFGF Investments* for investing more than 20% of the budget, the result of a US$ 150 million loan from BIRD (the International Bank for Reconstruction and Development - IBRD) to the city hall for infrastructure works and debt payments. Nevertheless, it remained with Concept B in the *IFGF Cost of Debt*.

Rio de Janeiro (RJ) obtained the second-best result among the capitals, also with Concept B in the IFGF. The second largest Brazilian metropolis has a large tax collection capacity, generating over two-thirds of its revenues – the maximum score in the *IFGF Own Revenue*. Among the capitals it is the second largest in tax collection, only behind **São Paulo** (SP), which generates 70.1% of its budget, and nationwide Rio is among the ten largest municipalities in terms of own revenue.

[18] Influenced by the change in the calculation basis of the municipal tax IPTU.

In the Olympic year, even with the real drop in revenues, the city maintained a high level of investment, but at the cost of a significant reduction of the city's cashier. In 2016, Rio de Janeiro City Hall invested 18.2% of its CNR (RCL) (Concept A in *IFGF Investments*); however, the ratio between cash availability and accounts payable on the CNR (RCL) reached the lowest level since 2006: 3.0 % CNR (RCL) (Concept C in *IFGF Liquidity*).

Also in a prominent ranking position, **Salvador** (BA) presented a good fiscal situation (Concept B), thanks to Concept A obtained in the *IFGF Own Revenue* and the *IFGF Liquidity*. The largest capital in the Northeast has a high tax collection capacity, with enough own revenue to pay the entire municipal servant payroll. In addition, the cash resources discounted from accounts payable represent 17.0% of the CNR (RCL). The only reason Bahia did not reach the top of the capital ranking was due to the low amount of investments (5.6% of CNR (RCL), Concept D in *IFGF Investments*).

In the fourth position, **Fortaleza** (CE) reached Concept A in the *IFGF Liquidity* and *IFGF Cost of Debt*. The low amount of accounts payable enabled the available cash resources to achieve 21.0% of the CNR (RCL). In addition, interest and amortization expenses of the capital consume only 2.3% of the real net revenue. The low budget share destined to the public servant payrolls (49.0% of the CNR - RCL) is another prominent factor in Ceará, which remained with Concept B in *IFGF Staff Cost*.

Then, **Boa Vista** (RR) ranked fifth with Concept A in *IFGF Investments*, *IFGF Liquidity* and *IFGF Cost of Debt*. The percentage of investments in the CNR (RCL) was the highest among the capitals - 23.7% of CNR (RCL), due to the capital's urban mobility program. Moreover, the capital of Roraima ended the year with high availability of cash, equivalent to 21.3% of CNR (RCL). It is worth mentioning that Boa Vista is a good example that low own tax collection is not an obstacle for a good fiscal management. The own revenue of Roraima’s capital is about 12.1% of CNR (RCL), the lowest among Brazilian capitals.

Other capitals with Concept B are located in the middle of the ranking, between the 6th and the 14th positions. The main city of the country, **São Paulo** (SP), stands out. It is in the 8th position among the capitals. São Paulo was the only one to achieve Concept A in *IFGF Staff Cost*, however, this result contrasted with Concept D in *IFGF Investments* (7.1% of CNR - RCL). Furthermore, the budget share to interest and amortization debts was decisive for the capital ranking. These expenses represented 7.6% of the real net income of São Paulo - Concept C in the *IFGF Cost of Debt*.

Among the greatest metropolises, it is also worth mentioning the results of **Belo Horizonte (MG)**. In 2016, for the first time in 11 years, Minas Gerais did not end the year with more accounts payable than cash. The improvement in the *IFGF Liquidity* led the capital to stay, for the first time, among the 500 top results in the country.

Among the 10 capitals with Concept C, **Recife** (PE) drew attention due to the low level of investments and for closing the year in a tight cash. Investments represented only 6.2% of the budget and, excluding accounts payable, cash represented 3.4% of the CNR (RCL). **Natal (RN)**, in turn, invested a higher revenue percentage (9.7%), but recorded a higher staff cost percentage: 55.8% of CNR (RCL) versus 53.0% in Pernambuco.

In the South, **Curitiba** (PR) presented a difficult fiscal situation, combining low investment, only 2.4% of the CNR (RCL), and tight cash with accounts payable, resulting in Concept C in *IFGF Liquidity*. The eighth largest city in the country is in the 17th position among capitals and in the 801st place among all the municipalities analyzed.

Macapá (AP) was in the penultimate position among the capitals with an extreme scenario. If, on the one hand, Amapá reached Concept A in *IFGF Liquidity* and *IFGF Cost of Debt*, on the other, it remained with Concept D in the other three indicators, especially staff cost, which exceeded the limit of 60% determined by the FRL (LRF), reaching 73.7% of CNR (RCL).

Campo Grande (MS) obtained the only Concept D among the capitals. The analysis of Mato Grosso do Sul capital public accounts revealed a low investment scenario - 3.2 times lower than the average of other capitals. Moreover, the amount of accounts payable was higher than cash resources, that is, the city hall failed to comply with the FRL (LRF) and delivered the capital accounts in the red.

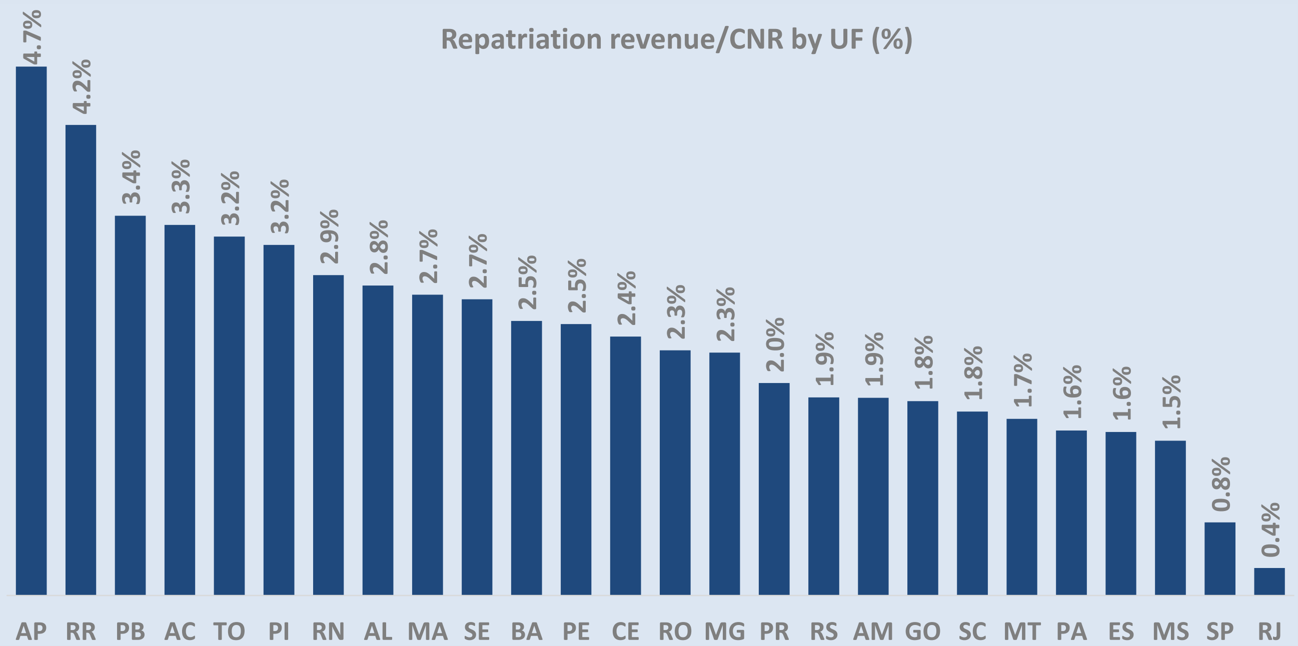
The case-by-case study of the Brazilian capitals draws attention to the wealth of information available for the public policies orientation. The positive results of some of them show that high fiscal performance is possible. In this regard, the IFGF offers taxpayers and public managers an important instrument for permanent fiscal management monitoring.

Brazil Ranking	UF	Municipality	IFGF 2016		General IFGF	Own Revenue	Staff Cost	Investments	Liquidity	Cost of Debt
		Brazil		0.4655	C	D	C	D	C	A
33º	AM	Manaus	1º	0.7651	B	A	B	A	C	B
66º	RJ	Rio de Janeiro	2º	0.7329	B	A	C	A	C	B
105º	BA	Salvador	3º	0.7100	B	A	B	D	A	B
115º	CE	Fortaleza	4º	0.7039	B	B	B	C	A	A
135º	RR	Boa Vista	5º	0.6950	B	D	C	A	A	A
145º	ES	Vitória	6º	0.6923	B	A	B	D	B	B
167º	AC	Rio Branco	7º	0.6854	B	C	B	C	A	B
229º	SP	São Paulo	8º	0.6697	B	A	A	D	B	C
298º	SE	Aracaju	9º	0.6524	B	A	C	D	A	A
319º	MG	Belo Horizonte	10º	0.6477	B	A	B	D	B	C
344º	MT	Cuiabá	11º	0.6425	B	A	B	C	C	A
486º	PI	Teresina	12º	0.6183	B	B	C	B	C	A
626º	PA	Belém	13º	0.6010	B	B	C	C	C	B
635º	RS	Porto Alegre	14º	0.6002	B	A	C	D	C	B
672º	PE	Recife	15º	0.5958	C	A	C	D	C	B
791º	RN	Natal	16º	0.5828	C	A	C	C	C	B
801º	PR	Curitiba	17º	0.5822	C	A	B	D	C	B
813º	RO	Porto Velho	18º	0.5807	C	B	C	D	B	A
835º	PB	João Pessoa	19º	0.5787	C	B	C	D	B	A
876º	TO	Palmas	20º	0.5746	C	B	C	D	B	B
1420º	AL	Maceió	21º	0.5292	C	B	C	D	B	D
1639º	MA	São Luís	22º	0.5135	C	B	C	D	C	B
1778º	GO	Goiânia	23º	0.5027	C	A	B	D	D	A
2132º	AP	Macapá	24º	0.4769	C	D	D	D	A	A
3276º	MS	Campo Grande	25º	0.3985	D	A	C	D	D	A
		Average capitals		0.6133	B	B	C	D	B	B

REVENUE REPATRIATION

In 2016, revenue from the Repatriation Law [1]had a significant impact on the Brazilian public accounts. Combining income tax and fine, the total amount collected through repatriation was R$ 46.8 billion. The income tax (IR) amount was distributed to states and municipalities in accordance with article 159 [1] of the Constitution. However, the amount related to fines did not have its mandatory distribution in the Constitution. Therefore, the government issued the Provisional Measure 753 of 2016 which allocated the portion of the repatriation related to the fines to the states and municipalities.

Out of the total amount collected, the sum allocated to the municipalities was R$ 8.9 billion, half of which referred to the income tax (IR) and half to the fines. Revenues from the income tax (IR) were distributed throughout 2016, while revenues from the fines were deposited in the municipalities' account on December 30th, the last working day of the year. In fact, the 4,544 municipalities which provided transparency to their accounts received R$ 7.5 billion in income tax (IR) transfers and repatriation fines. This sum represents a 3.8% increase in municipal revenues



[1] Law 13,254 of 2016 establishes a special regime for the regularization of resources of lawful origin that have not been declared or declared incorrectly. This Law is also known as the Repatriation Law. In this regime, to regularize the resources, an Income Tax (IR) of 15% and a fine of the same rate on the amount were established.

[1] Article 159 requires that the collection be distributed to the states and municipalities, following the parameters of the FPE (Participation Fund of the States) and FPM (Municipal Participation Fund).

Just to have an idea, if the resources received by repatriation had not been considered, the number of municipalities in a critical situation (Concept D) in the IFGF would increase to 341.

Since revenue distribution followed the Municipal Participation Fund (FPM) logic, the municipalities of the North and Northeast regions received a larger amount, which brought a significant relief to their municipality public accounts. In Amapá city halls, these resources represented a 4.7% increase in the CNR (RCL). In Roraima, the impact also exceeded 4% of CNR (RCL). The graph above shows the average impact of revenue repatriation on CNR (RCL) in the municipalities per states.

As they resulted in income increase, revenues from the Repatriation Law have prevented an even worse scenario for municipality accounts. In all, 624 city halls escaped from being outlawed due to revenue repatriation. One of the direct effects of repatriation was on the number of city halls that escaped from exceeding the 60% limit of the CNR (RCL) Staff Cost. Without this extra resource, another 296 city halls would have also remained outlawed. The other one was in the relationship between accounts payable and cashier. If it had not been for these extraordinary resources, another 328 municipalities would have failed to comply with the FRL (LRF) for having more accounts payable than cash resources at the end of 2016.