



Republic of the Philippines
DEPARTMENT OF THE INTERIOR AND LOCAL GOVERNMENT
REGION XIII (CARAGA REGION)
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November 19, 2014

EDMAR P. PEREZ
Municipal Accountant
Loreto, Agusan del Sur

Dear Mr. Perez:

This refers to your request for opinion relative to the 20% debt service cap citing paragraph 3.2.4 of JMC No. 2011-1 dated April 13, 2011, specifically whether the total amount of the 20% [Municipal Development Fund] can be utilize (*sic*) for the annual amortization of loans OR only the 20% of the whole 20% Municipal Development Fund is allowed to use (*sic*) in settlement of loan obligation.

The above-cited JMC included under Projects Covered - Economic Development, paragraph 3.2.4, stating:

“3.2.4 Amortization of loans used to finance development projects cited in this Joint Circular, subject to the 20% debt service cap.”

The question now is: what is or how much is the 20% debt service cap?

Let us invite your attention to Section 324 (b) of the Local Government Code of 1991 (R.A. 7160) providing that the budget of the local government units for any fiscal year shall comply with the following requirements, *viz*:

XXX

“(b) Full provision shall be made for all statutory and contractual obligations of the local government unit concerned: Provided, however, that the amount of appropriations for debt servicing shall not exceed twenty percent (20%) of the regular income of the local government unit concerned; (Emphasis supplied)

xxx

Clearly provided in the quoted provision is the amount of the **debt service cap** which **is 20% of the regular income of the LGU**. Thus, it is NOT the whole 20% Municipal Development Fund OR 20% of the 20% Municipal Development Fund but 20% of the regular income of the LGU. This necessarily means that the allocation for debt service may not only come from the 20% Municipal Development Fund but also from the remaining percentage of the LGU income after all statutory and contractual obligations of the LGU have been provided for. Besides, using the whole amount of the 20% Municipal Development Fund for amortization of loans may be detrimental to the LGU. Utilization of the fund for projects covered such as those for Social Development, Economic Development and Environmental Management may be sacrificed and the constituents may be deprived of the projects and services.

We hope to have satisfactorily addressed your concern. This opinion is rendered without prejudice to the decisions that competent higher authorities and the courts may subsequently decree.

Please course through your request for legal opinion in the future through your MLGOO or DILG Provincial Office.

Thank you and God bless!

Very truly yours,

LILIBETH A. FAMACION, CESO IV
Regional Director

cc: **PD Arleen Ann Sanchez**
DILG-ADN

Ms. Feliviv C. Cuanan
MLGOO-Loreto, ADS

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