

Title: City Assessor of Cebu City vs. Association of Benevola de Cebu, Inc.

Facts:

1. **Parties Involved:**

- Petitioner: City Assessor of Cebu City
- Respondent: Association of Benevola de Cebu, Inc., owner of Chong Hua Hospital (CHH) in Cebu City.

2. **Construction of CHHMAC:**

- In the late 1990s, the respondent constructed the CHH Medical Arts Center (CHHMAC).

3. **Classification and Tax Assessment:**

- On April 17, 1998, a Certificate of Occupancy classified CHHMAC as “commercial.”
- The City Assessor assessed CHHMAC with a property value of PhP 28,060,520 and an assessed value of PhP 9,821,180, applying a 35% assessment rate for commercial buildings.

4. **Initial Appeal:**

- On September 15, 1998, the respondent filed a letter-petition with the Local Board of Assessment Appeals (LBAA) arguing that CHHMAC should be classified part of CHH and subject to a special assessment rate of 10%.
- The appeal was later formally filed and docketed as Case No. 4406 by the LBAA.
- During the hearings, both parties submitted position papers. The City Assessor justified the commercial classification based on the building’s use by medical practitioners who charged fees and earned income.
- The respondent argued that CHHMAC was integral to CHH’s operations and cited City Tax Ordinance LXX for the 10% special assessment rate on similar buildings.

5. **LBAA Decision:**

- On February 10, 1999, the LBAA ruled in favor of the respondent, granting CHHMAC a 10% special assessment rate.

6. **Appeal to CBAA:**

- The petitioner appealed to the Central Board of Assessment Appeals (CBAA) on March 15, 1999, which upheld the LBAA’s decision on January 24, 2000.

7. **Court of Appeals (CA):**

- The petitioner subsequently filed a petition for review under Rule 43 with the CA.
- On October 31, 2001, the CA affirmed the CBAA’s decision, recognizing CHHMAC as part

of CHH and entitled to the 10% special rate.

- The CA denied the Motion for Reconsideration on March 11, 2002, leading the petitioner to file an appeal to the Supreme Court.

****Issues:****

1. Whether the Court of Appeals committed a serious error in affirming the CBAA's decision that CHHMAC is an essential part of CHH and thus entitled to a 10% assessment rate rather than 35% commercial rate.

2. Whether the CA had the authority to interfere with the findings of the CBAA, a government agency with special technical knowledge and training.

****Court's Decision:****

1. ****CHHMAC as an Integral Part of CHH:****

- The Supreme Court agreed with lower board-agencies and CA that the CHHMAC was an integral part of CHH. It emphasized that though situated 100 meters from CHH, CHHMAC housed accredited doctors essential for the hospital's operations, thus fulfilling requirements for a tertiary hospital, per Dept. of Health regulations.

2. ****Necessity and Incidental Nature:****

- The Court validated that CHH's operational necessities extended to facilities housing essential medical arts services. The Supreme Court applied principles from *Herrera vs. Quezon City Board of Assessment Appeals* and *Abra Valley College, Inc. vs. Aquino* to support that such facilities, though not indispensable, were reasonably necessary and thus covered under the "special assessment" provisions.

3. ****Exemption from Commercial Assessment:****

- The argument that rental charges to doctors rendered CHHMAC commercial was rejected. The Supreme Court recognized that rental charges rationalized the investment and maintenance and emphasized that profits from such would be channeled into charitable projects, thus not compromising the nonprofit status of CHH.

4. ****Legal Basis for Special Classification:****

- The Court referred to Sections 215 and 216 of the Local Government Code which classified properties used by hospitals as "special" and preserved them under a special assessment rate.

****Doctrine:****

1. ****Property used by nonprofit hospitals can fall under a special assessment rate (10%) if**

facilities are ancillary to and necessary for its main operations, even if they generate some revenue or are situated separately.**

2. **The real property's 'actual use' extends to support services required for its operational mandate, per foundational legislative and case laws such as Herrera vs. Quezon and Abra Valley College, Inc. vs. Aquino.**

****Class Notes:****

- ****Classification of Real Property:****

- Sec. 215 (Local Government Code): Defines real property classes.
- Sec. 216 (Local Government Code): Special classifications for properties used exclusively by hospitals.

- ****Assessment Level Criteria:****

- Structures integral and necessary to hospital operations receive special concessions.

- ****Revenue-Generating Activities:****

- Charging rents does not transform nonprofit supporting structures into commercial properties if mandated role supports primary functional activity, ensuring overall nonprofit operational status.

- ****Evaluation Strategy in Usage-Based Tax:****

- Always prioritize actual fulfillment of principal organizational activities.

****Historical Background:****

- ****Broader Context of Hospital Operations:****

- Administrative Order No. 68-A and the Revised Rules govern hospital licensing, ensuring capability across medical specialties. This case highlights regulatory compliance's interplay with real property taxation, emphasizing integrating modern supportive infrastructure within holistic healthcare administration, reinforcing hospital systems, diversification, and necessity-based optimal patient care.