CITY ASSESSOR OF CEBU CITY, PETITIONER, VS. ASSOCIATION OF BENEVOLA DE CEBU, INC., RESPONDENT.

G.R. No. 152904. June 08, 2007

Ponente: VELASCO, JR., J.

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VELASCO, JR., J.:

Is a medical arts center built by a hospital to house its doctors a separate commercial establishment or an appurtenant to the hospital? This is the core issue to be resolved in the instant petition where petitioner insists on a 35% assessment rate on the building which he considers commercial in nature contrary to respondent's position that it is a special real property entitled to a 10% assessment rate for purposes of realty tax.

The Case

This Petition for Review on Certiorari[1] under Rule 45 assails the October 31, 2001 Decision[2] of the Court of Appeals (CA) in CA-G.R. SP No. 62548, which affirmed the January 24, 2000 Decision[3] and October 25, 2000 Resolution[4] of the Central Board of Assessment Appeals (CBAA); and the March 11, 2002 Resolution[5] of the same court denying petitioner's Motion for Reconsideration.[6] The CBAA upheld the February 10, 1999 Decision of the Local Board of Assessment Appeals (LBAA), which overturned the 35% assessment rate of respondent Cebu City Assessor and ruled that petitioner is entitled to a 10% assessment.

The Facts

Respondent Association of Benevola de Cebu, Inc. is a non-stock, non-profit organization organized under the laws of the Republic of the Philippines and is the owner of Chong Hua Hospital (CHH) in Cebu City. In the late 1990's, respondent constructed the CHH Medical Arts Center (CHHMAC). Thereafter, an April 17, 1998 Certificate of Occupancy[7] was issued to the center with a classification of "Commercial [Clinic]."

Petitioner City Assessor of Cebu City assessed the CHHMAC building under Tax Declaration (TD) No. '97 GR-04-024-02529 as "commercial" with a market value of PhP 28,060,520 and an assessed value of PhP 9,821,180 at the assessment level of 35% for commercial buildings, and not at the 10% special assessment currently imposed for CHH and its other separate buildings–the CHH's Dietary and Records Departments.

Thus, respondent filed its September 15, 1998 letter-petition with the Cebu City LBAA for reconsideration, asserting that CHHMAC is part of CHH and ought to be imposed the same special assessment level of 10% with that of CHH. On September 25, 1998, respondent formally filed its appeal with the LBAA which was docketed as Case No. 4406, TD No. '97 GR-04-024-02529 entitled Association Benevola de Cebu, Inc. v. City Assessor.

In the September 30, 1998 Order, the LBAA directed petitioner to conduct an ocular inspection of the subject property and to submit a report on the scheduled date of hearing. In the October 7, 1998 hearing, the parties were required to submit their respective position papers.

In its position paper, petitioner argued that CHHMAC is a newly constructed five-storey building situated about 100 meters away from CHH and, based on actual inspection, was ascertained that it is not a part of the CHH

building but a separate building which is actually used as commercial clinic/room spaces for renting out to physicians and, thus, classified as "commercial." Petitioner contended that in turn the medical specialists in CHHMAC charge consultation fees for patients who consult for diagnosis and relief of bodily ailment together with the ancillary (or support) services which include the areas of anesthesia, radiology, pathology, and more. Petitioner concluded the foregoing set up to be ultimately geared for commercial purposes, and thus having the proper classification as "commercial" under Building Permit No. B01-9750087 pursuant to Section 10 of the Local Assessment Regulations No. 1-92 issued by the Department of Finance (DOF).

On the other hand, respondent contended in its position paper that CHHMAC building is actually, directly, and exclusively part of CHH and should have a special assessment level of 10% as provided under City Tax Ordinance LXX. Respondent asserted that the CHHMAC building is similarly situated as the buildings of CHH, housing its Dietary and Records Departments, are completely separate from the main CHH building and are imposed the 10% special assessment level. In fine, respondent argued that the CHHMAC, though not actually indispensable, is nonetheless incidental and reasonably necessary to CHH's operations.

The Ruling of the Local Board of Assessment Appeals

On February 10, 1999, the LBAA rendered a Decision,[8] the dispositive portion of which reads:

> WHEREFORE, premises considered, the appealed decision imposing a thirty five (35) percent assessment level of TD No. '97 GR-04-024-02529 on the Chong Hua Hospital Medical Arts building is reversed and set aside and other [sic] one issued declaring that the building is entitled to a ten (10) percent assessment level.

In reversing the ruling of petitioner City Assessor of Cebu City, the LBAA reasoned that it is of public knowledge that hospitals have plenty of spaces leased out to medical practitioners, which is both an accepted and desirable fact; thus, respondent's claim is not disputed that such is a must for a tertiary hospital like CHH. The LBAA held that it is inconsequential that a separate building was constructed for that purpose pointing out that departments or services of other institutions and establishments are also not always housed in the same building.

Thus, the LBAA pointed to the fact that respondent's Dietary and Records Departments which are housed in separate buildings were similarly imposed with CHH the special assessment level of 10%, ratiocinating in turn that there is no reason therefore why a higher level would be imposed for CHHMAC as it is similarly situated with the Dietary and Records Departments of the CHH.

The Ruling of the Central Board of Assessment Appeals

Aggrieved, petitioner filed its March 15, 1999 Notice of Appeal[9] and March 16, 1999 Appeal Memorandum[10] before the CBAA Visayas Field Office which docketed the appeal as CBAA Case No. V-15, In Re: LBAA Case No. 4406, TD No. '97 GR-04-024-02529 entitled City Assessor of Cebu City v. Local Board of Assessment Appeals of Cebu City and Associacion Benevola de Cebu, Inc. On June 3, 1999, respondent filed its Answer[11] to petitioner's appeal.

Subsequently, on January 24, 2000, the CBAA rendered a Decision[12] affirming in toto the LBAA Decision and resolved the issue of whether the subject building of CHHMAC is part and parcel of CHH. It agreed with the above disquisition of the LBAA that it is a matter of public knowledge that hospitals lease out spaces to its accredited medical practitioners, and in particular it is of public knowledge that before the CHHMAC was constructed, the accredited doctors of CHH were housed in the main hospital building of CHH. Moreover, citing Herrera v. Quezon City Board of Assessment Appeals[13] later applied in Abra Valley College, Inc. v. Aquino,[14] the CBAA held that the fact that the subject building is detached from the main hospital building is of no consequence as the exemption in favor of property used exclusively for charitable or educational purposes is not only limited to property actually indispensable to the hospital, but also extends to facilities which are

incidental and reasonably necessary for the accomplishment of such purposes.

Through its October 25, 2000 Resolution,[15] the CBAA denied petitioner's Motion for Reconsideration.[16]

The Ruling of the Court of Appeals

Not satisfied, petitioner brought before the CA a petition for review[17] under Rule 43 of the Rules of Court, docketed as CA-G.R. SP No. 62548, ascribing error on the CBAA in dismissing his appeal and in affirming the February 10, 1999 Decision[18] of the LBAA.

On October 31, 2001, the appellate court rendered the assailed Decision[19] which affirmed the January 24, 2000 Decision of the CBAA. It agreed with the CBAA that CHHMAC is part and parcel of CHH in line with the ruling in Herrera[20] on what the term "appurtenant thereto" means. Thus, the CA held that the facilities and utilities of CHHMAC are undoubtedly necessary and indispensable for the CHH to achieve its ultimate purpose.

The CA likewise ruled that the fact that rentals are paid by CHH accredited doctors and medical specialists for spaces in CHHMAC has no bearing on its classification as a hospital since CHHMAC serves also as a place for medical check-up, diagnosis, treatment, and care for its patients as well as a specialized out-patient department of CHH where treatment and diagnosis are done by accredited medical specialists in their respective fields of anesthesia, radiology, pathology, and more.

The appellate court also applied Secs. 215 and 216 of the Local Government Code (Republic Act No. 7160) which classify lands, buildings, and improvements actually, directly, and exclusively used for hospitals as special cases of real property and not as commercial. Thus, CHHMAC being an integral part of CHH is not commercial but special and should be imposed the 10% special assessment, the same as CHH, instead of the 35% for commercial establishments.

Lastly, the CA pointed out that courts generally will not interfere in matters which are addressed to the sound discretion of the government agencies entrusted with the regulation of activities under their special technical knowledge and training–their findings and conclusions are accorded not only respect but even finality.

Through the assailed March 11, 2002 Resolution,[21] the CA denied petitioner's Motion for Reconsideration.

The Issues

Hence, before us is the instant petition with the solitary issue, as follows:

> WHETHER OR NOT THERE IS SERIOUS ERROR BY THE COURT OF APPEALS IN AFFIRMING THE DECISION OF THE CENTRAL BOARD OF ASSESSMENT APPEALS THAT THE NEW BUILDING "CHONG HUA HOSPITAL AND MEDICAL ARTS CENTER" (CHHMAC) IS AN ESSENTIAL PART OF THE OLD BUILDING KNOWN AS "CHONG HUA HOSPITAL." IN THE NEGATIVE, WHETHER OR NOT THE NEW BUILDING IS LIABLE TO PAY THE 35% ASSESSMENT LEVEL. AND WHETHER OR NOT THE COURT OF APPEALS COULD INTERFERE WITH THE FINDINGS OF THE CENTRAL BOARD OF ASSESSMENT APPEALS, A GOVERNMENT AGENCY HAVING SPECIAL TECHNICAL KNOWLEDGE AND TRAINING ON THE MATTER SUBJECT OF THE PRESENT CASE.[22]

The Court's Ruling

The petition is devoid of merit.

It is petitioner's strong belief that the subject building, CHHMAC, which is built on a rented land and situated about 100 meters from the main building of CHH, is not an extension nor an integral part of CHH and thus should not enjoy the 10% special assessment. Petitioner anchors the classification of CHHMAC as "commercial," first, on Sec. 10 of Local Assessment Regulations No. 1-92 issued by the DOF, which provides:

> SEC. 10. Actual use of Real Property as basis of Assessment.—Real Property shall be classified, valued and assessed on the basis of its actual use regardless of where located, whoever owns it, and whoever uses it. (Sec. 217, R.A. 7160)
>
> A. "Actual use" refers to the purpose for which the property is principally or predominantly utilized by the person in possession of the property. (Sec. 199 (b), R.A. 7160)

Secondly, the result of the inspection on subject building by the City Assessor's inspection team shows that CHHMAC is a commercial establishment based on the following: (1) CHHMAC is exclusively intended for lease to doctors; (2) there are neither operating rooms nor beds for patients; and (3) the doctors renting the spaces earn income from the patients who avail themselves of their services. Thus, petitioner argues that CHHMAC is principally and actually used for lease to doctors, and respondent as owner of CHHMAC derives rental income from it; hence, CHHMAC was built and is intended for profit and functions commercially.

Moreover, petitioner asserts that CHHMAC is not part of the CHH main building as it is exclusively used as private clinics of physicians who pay rental fees to petitioner. And while the private clinics might be considered facilities, they are not incidental to nor reasonably necessary for the accomplishment of the hospital's purposes as CHH can still function and accomplish its purpose without the existence of CHHMAC. In addition, petitioner contends that the Abra Valley College, Inc.[23] ruling is not applicable to the instant case for schools, the subject matter in said case, are already entitled to special assessment. Besides, petitioner points CHHMAC is not among the facilities mentioned in said case. Further, petitioner argues that CHHMAC is not in the same category as nurses' homes and housing facilities for the hospital staff as these are clearly not for profit, that is, not commercial, and are clearly incidental and reasonably necessary for the hospital's purposes.

We are not persuaded.

A careful review of the records compels us to affirm the assailed CA Decision as we find no reversible error for us to reverse or alter it.

Chong Hua Hospital Medical Arts Center is an integral part of Chong Hua Hospital

We so hold that CHHMAC is an integral part of CHH.

It is undisputed that the doctors and medical specialists holding clinics in CHHMAC are those duly accredited by CHH, that is, they are consultants of the hospital and the ones who can treat CHH's patients confined in it. This fact alone takes away CHHMAC from being categorized as "commercial" since a tertiary hospital like CHH is required by law to have a pool of physicians who comprises the required medical departments in various medical fields. As aptly pointed out by respondent:

> Chong Hua Hospital is a duly licensed tertiary hospital and is covered by Dept. of Health (DOH) Adm. Order No. 68-A and the "1989 Revised Rules and Regulations" governing the registration, licensure and operation of hospitals in the Philippines. Under Sec. 6, sub-sec. 6.3, it is mandated by law, that respondent appellee in order to retain its classification as a "TERTIARY HOSPITAL," must be fully departmentalized and equipped with the service capabilities needed to support certified medical specialists and other licensed physicians rendering services in the field of medicine, pediatrics, obstetrics and gynecology, surgery, and their sub-specialties, ICCU and ancillary services which is precisely the function of the Chong Hua Hospital Medical Arts Center.[24]

Sec. 6.3, Administrative Order No. (AO) 68-A, Series of 1989, Revised Rules and Regulations Governing the Registration, Licensure and Operation of Hospitals in the Philippines pertinently provides:

> Tertiary Hospital — is fully departmentalized and equipped with the service capabilities needed to support

> certified medical specialists and other licensed physicians rendering services in the field of Medicine, Pediatrics, Obstetrics and Gynecology, Surgery, their subspecialties and ancillary services. (Emphasis supplied.)

Moreover, AO 68-A likewise provides what clinic service and medical ancillary service are, thus:

> 11.3.2 Clinical Service—The medical services to patients shall be performed by the medical staff appointed by the governing body of the institution. x x x
>
> 11.3.3 Medical Ancillary Service—These are support services which include Anesthesia Department, Pathology Department, Radiology Department, Out-Patient Department (OPD), Emergency Service, Dental, Pharmacy, Medical Records and Medical Social Services.

Based on these provisions, these physicians holding offices or clinics in CHHMAC, duly appointed or accredited by CHH, precisely fulfill and carry out their roles in the hospital's services for its patients through the CHHMAC. The fact that they are holding office in a separate building, like at CHHMAC, does not take away the essence and nature of their services vis-&accute;-vis the over-all operation of the hospital and the benefits to the hospital's patients. Given what the law requires, it is clear that CHHMAC is an integral part of CHH.

These accredited physicians normally hold offices within the premises of the hospital; in which case there is no question as to the conduct of their business in the ambit of diagnosis, treatment and/or confinement of patients. This was the case before 1998 and before CHHMAC was built. Verily, their transfer to a more spacious and, perhaps, convenient place and location for the benefit of the hospital's patients does not remove them from being an integral part of the overall operation of the hospital.

Conversely, it would have been different if CHHMAC was also open for non-accredited physicians, that is, any medical practitioner, for then respondent would be running a commercial building for lease only to doctors which would indeed subject the CHHMAC to the commercial level of 35% assessment.

Moreover, the CHHMAC, being hundred meters away from the CHH main building, does not denigrate from its being an integral part of the latter. As aptly applied by the CBAA, the Herrera ruling on what constitutes property exempt from taxation is indeed applicable in the instant case, thus:

> Moreover, the exemption in favor of property used exclusively for charitable or educational purposes is "not limited to property actually indispensable" therefore (Cooley on Taxation, Vol. 2, p. 1430), but extends to facilities which are "incidental to and reasonably necessary for" the accomplishment of said purposes, such as, in the case of hospitals, "a school for training nurses, a nurses" home, property use to provide housing facilities for interns, resident doctors, superintendents, and other members of the hospital staff, and recreational facilities for student nurses, interns and residents" (84 C.J.S., 621), such as "athletic fields," including "a farm used for the inmates of the institution" (Cooley on Taxation, Vol. 2, p. 1430).[25]

Verily, being an integral part of CHH, CHHMAC should be under the same special assessment level of as that of the former.

The CHHMAC facility is definitely incidental to and reasonably necessary for the operations of Chong Hua Hospital

Given our discussion above, the CHHMAC facility, while seemingly not indispensable to the operations of CHH, is definitely incidental to and reasonably necessary for the operations of the hospital. Considering the legal requirements and the ramifications of the medical and clinical operations that have been transferred to the CHHMAC from the CHH main building in light of the accredited physicians' transfer of offices in 1998 after the CHHMAC building was finished, it cannot be gainsaid that the services done in CHHMAC are indispensable and

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essential to the hospital's operation.

For one, as found by the appellate court, the CHHMAC facility is primarily used by the hospital's accredited physicians to perform medical check-up, diagnosis, treatment, and care of patients. For another, it also serves as a specialized outpatient department of the hospital.

Indubitably, the operation of the hospital is not only for confinement and surgical operations where hospital beds and operating theaters are required. Generally, confinement is required in emergency cases and where a patient necessitates close monitoring. The usual course is that patients have to be diagnosed, and then treatment and follow-up consultations follow or are required. Other cases may necessitate surgical operations or other medical intervention and confinement. Thus, the more the patients, the more important task of diagnosis, treatment, and care that may or may not require eventual confinement or medical operation in the CHHMAC.

Thus, the importance of CHHMAC in the operation of CHH cannot be over-emphasized nor disputed. Clearly, it plays a key role and provides critical support to hospital operations.

Charging rentals for the offices used by its accredited physicians cannot be equated to a commercial venture

Finally, respondent's charge of rentals for the offices and clinics its accredited physicians occupy cannot be equated to a commercial venture, which is mainly for profit.

Respondent's explanation on this point is well taken. First, CHHMAC is only for its consultants or accredited doctors and medical specialists. Second, the charging of rentals is a practical necessity: (1) to recoup the investment cost of the building, (2) to cover the rentals for the lot CHHMAC is built on, and (3) to maintain the CHHMAC building and its facilities. Third, as correctly pointed out by respondent, it pays the proper taxes for its rental income. And, fourth, if there is indeed any net income from the lease income of CHHMAC, such does not inure to any private or individual person as it will be used for respondent's other charitable projects.

Given the foregoing arguments, we fail to see any reason why the CHHMAC building should be classified as "commercial" and be imposed the commercial level of 35% as it is not operated primarily for profit but as an integral part of CHH. The CHHMAC, with operations being devoted for the benefit of the CHH's patients, should be accorded the 10% special assessment.

In this regard, we point with approbation the appellate court's application of Sec. 216 in relation with Sec. 215 of the Local Government Code on the proper classification of the subject CHHMAC building as "special" and not "commercial." Secs. 215 and 216 pertinently provide:

> SEC. 215. Classes of Real Property for Assessment Purposes.–For purposes of assessment, real property shall be classified as residential, agricultural, commercial, industrial, mineral, timberland or special.
>
> x x x x
>
> SEC. 216. Special Classes of Real Property.—All lands, buildings, and other improvements thereon actually, directly and exclusively used for hospitals, cultural or scientific purposes, and those owned and used by local water districts, and government-owned or controlled corporations rendering essential public services in the supply and distribution of water and/or generation and transmission of electric power shall be classified as special. (Emphasis supplied.)

Thus, applying the above provisos in line with City Tax Ordinance LXX of Cebu City, the 10% special assessment should be imposed for the CHHMAC building which should be classified as "special."

WHEREFORE, the petition is DENIED for lack of merit and the October 31, 2001 Decision and March 11, 2002 Resolution of the CA are hereby AFFIRMED. No pronouncement as to costs.

SO ORDERED.

Quisumbing, (Chairman), Carpio, Carpio-Morales, and Tinga, JJ., concur

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[1] Rollo, pp. 12-24.

[2] Id. at 26-34. The Decision was penned by Associate Justice Portia Aliño-Hormachuelos (Chairperson) and concurred in by Associate Justices Eriberto U. Rosario, Jr. and Amelita G. Tolentino of the Seventeenth Division.

[3] CA rollo, pp. 13-17.

[4] Id. at 22.

[5] Rollo, p. 36.

[6] Id. at 37-43.

[7] CA rollo, p. 23.

[8] Folder 1, CBAA Records; per Cebu City Prosecutor Primo C. Miro as concurred in by Cebu City Register of Deeds Felixberto F. Alino (Chairperson) and Cebu City Engineer Antonio B. Sanchez.

[9] Id.

[10] Id.

[11] Id.

[12] Supra note 3.

[13] No. L-15270, September 30, 1961, 3 SCRA 186.

[14] No. L-39086, June 15, 1988, 162 SCRA 106.

[15] Supra note 4.

[16] CA rollo, pp. 18-21.

[17] Id. at 2-10.

[18] Supra note 8.

[19] Supra note 2.

[20] Supra note 13.

[21] Supra note 5.

[22] Rollo, p. 91.

[23] Supra note 14.

[24] Rollo, pp. 107-108.

[25] Supra note 13, at 192.

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