Republic of the Philippines
COURT OF TAX APPEALS
Quezon City

*En Banc*

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| **NATIONAL POWER CORPORATION,** Petitioner, | **CTA EB No. 1020** (CBAA Case Nos. L-57 & L-59) |
| - versus - | **Present:** |
| **LUZON HYDRO CORPORATION (LHC), BANGGAY T. ALWIS, Municipal Assessor, MANUEL C. BAGAYAO, Municipal Treasurer of Bakun, Benguet, ERLINDA ESTEPA, Provincial Assessor and MAURICIO B. AMBANLOC, Provincial Treasurer of the Province of Benguet,** Respondents. | DEL ROSARIO, *P.J.*,<br>CASTAÑEDA, JR.,<br>BAUTISTA,<br>UY,<br>CASANOVA,<br>FABON-VICTORINO,<br>MINDARO-GRULLA, and<br>RINGPIS-LIBAN, *JJ.*<br><br>Promulgated:<br><br>SEP 26 2016 1:42 p.m. |

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## RESOLUTION

This resolves respondent Luzon Hydro Corporation's (LHC) Motion for Partial Reconsideration (of the Resolution dated 17 March 2016)[1] filed, *via* registered mail on April 12, 2016, with respondents Banggay T. Alwis, Manuel C. Bagayao, Erlinda Estepa, and Mauricio B. Ambanloc's Comment[2], filed thru registered mail on May 26, 2016, and National Power Corporation's (NPC) Manifestation (In Lieu of Comment)[3] filed on June 27, 2016.

In the subject Motion, respondent LHC prays for this Court to hold in abeyance the requirement for the parties to file their Comment on the Petition for Review until the resolution of this

[1] En Banc Rollo (Vol. III), pp. 1248-1256.
[2] Ibid., pp. 1261-1266.
[3] Id., pp. 1274-1282.

Motion; and, to partially reconsider its Resolution dated March 17, 2016, which denied the parties' Joint Motion for Judgment Based on Compromise on account of the parties' failure to submit the following documents as required in the Resolution[4] dated December 18, 2013, to wit:

1. Sangguniang Panlalawigan of Benguet's Resolution authorizing their Provincial Governor to enter into the January 29, 2004 Compromise Agreement; and,

2. Sangguniang Bayan of Bakun, Benguet's Resolution authorizing its Municipal Mayor Marcelo Contada to enter into the December 2007 Compromise Agreement and January 18, 2008 Memorandum of Agreement.

Respondent LHC argues that the signature of Provincial Governor of Benguet in the 2004 Compromise Agreement and the signature of the Municipal Mayor of Bakun, Benguet in the 2007 Compromise Agreement and 2008 Memorandum of Agreement were in the exercise of the powers enumerated under Sections 465[5] and 444[6] of Republic Act No. 7160 (R.A. No. 7160), otherwise known as

[4] *En Banc Rollo* (Vol. I), pp. 307-313.

[5] Section 465. *The Chief Executive: Powers, Duties, Functions, and Compensation.*

(a) The provincial governor, as the chief executive of the provincial government, shall exercise such powers and perform such duties and functions as provided by this Code and other laws.

(b) For efficient, effective and economical governance the purpose of which is the general welfare of the province and its inhabitants pursuant to Section 16 of this Code, the provincial governor shall:

x x xx

(3) Initiate and maximize the generation of resources and revenues, and apply the same to the implementation of development plans, program objectives and priorities as provided for under Section 18 of this Code, particularly those resources and revenues programmed for agro-industrial development and country-wide growth and progress and, relative thereto, shall:

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(iii) Ensure that all taxes and other revenues of the province are collected, and that provincial funds are applied to the payment of expenses and settlement of obligations of the province, in accordance with law or ordinance;

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(vii) Institute or cause to be instituted administrative or judicial proceedings for violation of ordinances in the collection of taxes, fees or charges, and for the recovery of funds and property, and cause the province to be defended against all suits to ensure that its interests, resources and rights shall be adequately protected.

[6] Section 444. *The Chief Executive: Powers, Duties, Functions and Compensation.* –

(a) The municipal mayor, as the chief executive of the municipal government, shall exercise such powers and performs such duties and functions as provided by this Code and other laws.

(b) For efficient, effective and economical governance the purpose of which is the general welfare of the municipality and its inhabitants pursuant to Section 16 of this Code, the municipal mayor shall:

xxxx

(3) Initiate and maximize the generation of resources and revenues, and apply the same to the implementation of development plans, program objectives and priorities as provided for under

the Local Government Code of 1991; that the acts of the local chief executives in entering into such agreements do not require prior approval of the Sanggunian concerned on the ground that the same were necessary consequences of the exercise of their powers to cause their particular government units to be defended against all suits; and, that the said local government units (LGUs) should be considered bound by the above-mentioned agreements since they had already reaped the benefits under the same.

As regards the Comment filed by respondents Banggay T. Alwis, Manuel C. Bagayao, Erlinda Estepa, and Mauricio B. Ambanloc, they agree with the findings of the Central Board of Assessment Appeals (CBAA) that respondent LHC has the actual, direct and exclusive use and possession of the power plant during the "Cooperation Period" as provided by the Power Purchase Agreement. Thus, it is liable to pay the real property tax imposed thereon. They also add that the machineries and equipment subject of the instant case do not fall under the classification of "Special Classes" under Sections 216[7] and 218[8] of R.A. No. 7160.

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Section 18 of this Code, particularly those resources and revenues programmed for gro-industrial development and country-wide growth and progress, and relative thereto, shall:
x x x x
(iii) Ensure that all taxes and other revenues of the municipality are collected and that municipal funds are applied in accordance with law or ordinance to the payment of expenses and settlement of obligations of the municipality;
x x x x
(viii) Institute or cause to be instituted administrative or judicial proceedings for violation of ordinances in the collection of taxes, fees or charges, and for the recovery of funds and property; and cause the municipality to be defended against all suits to ensure that its interests, resources and rights shall be adequately protected;

[7] Section 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.

[8] Section 218. *Assessment Levels.* - The assessment levels to be applied to the fair market value of real property to determine its assessed value shall be fixed by ordinances of the sangguniang panlalawigan, sangguniang panlungsod or sangguniang bayan of a municipality within the Metropolitan Manila Area, at the rates not exceeding the following:
(a) x x x x
x x x x
(d) On Special Classes: The assessment levels for all lands buildings, machineries and other improvements;

| Actual Use | Assessment Level |
|---|---|
| Cultural | 15% |
| Scientific | 15% |
| Hospital | 15% |
| Local water districts | 10% |

With respect to the Manifestation (In Lieu of the Comment) filed by petitioner NPC, it argues, among others, that the the local chief executives of the Province of Benguet and the Municipality of Bakun, respectively, were duly authorized to enter into the subject compromise agreements pursuant to the general welfare clause provided under Sections 444[9] and 465[10] of R.A. No. 7160; that the absence of a prior Sanggunian authorization does not adversely affect the powers of the local chief executive to enter into the compromise agreements; that it is the policy of the law to encourage compromises; and, that the Province of Benguet and the Municipality of Bakun have already become bound by the said agreements and cannot deny their validity after enjoying the benefits therefrom.

The focal issue to be resolved is whether the Court *En Banc* erred in denying the parties' Joint Motion for Judgment Based on Compromise.

The instant Motion for Reconsideration must fail.

To begin with, this Court finds no justifiable reason to grant respondent LHC's prayer to hold in abeyance the requirement for the parties to file their comment on the Petition until the resolution of this Motion, as the same would serve no purpose but to further delay the proceedings in this case. The demands of justice require this Court to render a just and speedy disposition of the substantive issue at hand considering that what is at stake in this case are taxes, which are the nation's lifeblood through which government agencies continue to operate and which the State discharges its functions for the welfare of its constituents.[11]

With regard to the substantive aspect of this case, We reiterate our stand that prior authorization by the Sanggunian concerned is required before the local chief executive may enter into contracts on a

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| Government-owned or controlled corporations engaged in the supply and distribution of water and/or generation and transmission of electric power | 10% |

[9] See Footnote No. 6.
[10] See Footnote No. 5.
[11] Visayas Geothermal Power Company v. Commission of Internal Revenue, G.R. No. 197525, June 4, 2014.

behalf of the local government unit. This is clear from the following provisions of R.A. No. 7160[12], to wit:

> *"Section 22. Corporate Powers.*— *x x* x
>
> > c) Unless otherwise provided in this Code, **no contract may be entered into by the local chief executive in behalf of the local government unit without prior authorization by the sanggunian concerned.** A legible copy of such contract shall be posted at a conspicuous place in the provincial capitol or the city, municipal or barangay hall.
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> x x x
>
> *Section 444. The Chief Executive: Powers, Duties, Functions and Compensation. -*
>
> > (a) **The municipal mayor, as the chief executive of the municipal government,** shall exercise such powers and performs such duties and functions as provided by this Code and other laws.
> >
> > (b) For efficient, effective and economical governance the purpose of which is the general welfare of the municipality and its inhabitants pursuant to Section 16 of this Code, the municipal mayor shall:
> >
> > (1) Exercise general supervision and control over all programs, projects, services, and activities of the municipal government, and in this connection, shall:
> >
> > > (i) x x x
> > >
> > > (vi) **Upon authorization by the sangguniang bayan, represent the municipality in all its business transactions and sign on its behalf all bonds, contracts, and obligations, and such other documents made pursuant to law or ordinance;**
>
> x x x x

[12] AN ACT PROVIDING FOR A LOCAL GOVERNMENT CODE OF 1991, October 10, 1991.

*SECTION 465. The Chief Executive: Powers, Duties, Functions, and Compensation.* — (a) The provincial governor, as the chief executive of the provincial government, shall exercise such powers and perform such duties and functions as provided by this Code and other laws.

> (b) For efficient, effective and economical governance the purpose of which is the general welfare of the province and its inhabitants pursuant to Section 16 of this Code, the provincial governor shall:
>
> (1) Exercise general supervision and control over all programs, projects, services, and activities of the provincial government, and in this connection, shall:
>
> (i) x x x
>
> x x x
>
> (vi) **Represent the province in all its business transactions and sign in its behalf all bonds, contracts, and obligations, and such other documents upon authority of the sangguniang panlalawigan or pursuant to law or ordinance;"** (Emphases supplied)

Such being the case, respondent LHC's insistence that no prior authorization is needed before the subject local chief executives may enter into the 2004 Compromise Agreement, 2007 Compromise Agreement and 2008 Memorandum of Agreement has no leg to stand on.

Although the general rule is that compromises are to be favored, and that compromises entered into in good faith cannot be set aside, this rule is not without qualification. A court may still reject a compromise agreement when it is repugnant to law, morals, good customs, public order or public policy.[13]

In this case, while there is no resolution issued by the Sangguniang Panlalawigan of Benguet submitted to this Court showing that it authorized its Provincial Governor Mauricio B.

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[13] Philippine National Oil Company vs. The Hon. Court of Appeals et al., G.R. No. 109976 and Philippine National Bank vs. The Hon. Court of Appeals et al., G.R. No. 112800, April 26, 2005.

Ambanloc to enter into the January 29, 2004 Compromise Agreement, the said Sanggunian, nonetheless, is deemed to have ratified the same when it subsequently issued the following resolutions:

1. Sangguniang Panlalawigan of Benguet Resolution No. 07-148[14] dated August 13, 2007, authorizing its Provincial Governor Nestor B. Fongwan to enter into a Compromise Agreement with the LHC and National Power Corporation (NPC) in relation to CBAA Case No. L-57 and L-59, then pending with the CBAA.

2. Sangguniang Panlalawigan of Benguet Resolution No. 12-091[15] dated March 26, 2012, authorizing its Provincial Governor Nestor B. Fongwan to enter into an Amended Compromise Agreement with the National Power Corporation relative to CBAA Case Nos. L-57 and L-59.

However, this does not hold true with respect to the authorization allegedly given by the Sangguniang Bayan of Bakun, Benguet to its Municipal Mayor Marcelo Contada in entering into the December 2007 Compromise Agreement and January 18, 2008 Memorandum of Agreement.

The Court observed that the said agreements were not accompanied by any document showing a grant of authority to the said public official to sign the same on behalf of the Municipality of Bakun. In fact, per Sanggunian Bayan Resolution No. 35-2006[16] dated February 27, 2006, it was the Municipal Vice Mayor of Bakun, Benguet, Belino B. Suni-en, who was authorized to represent the municipality in a possible compromise agreement with LHC and NPC, and not its Municipal Mayor Marcelo Contada. In addition, no further resolution issued by the said Sanggunian has been forwarded to this Court that could indicate its confirmation or ratification of the December 2007 Compromise Agreement and January 18, 2008 Memorandum of Agreement. By such reasons, the said agreements were fatally defective for lack of prior authorization from the Sanggunian Bayan.

Moreover, the allegation of previous execution of the terms and conditions of the Compromise Agreements and Memorandum of Agreements would not be enough for this Court to disregard the

[14] Attached to Provincial Treasurer's Manifestation and Compliance, En Banc Rollo (Vol. III), p. 1147.
[15] Attached to Provincial Treasurer's Manifestation and Compliance, En Banc Rollo (Vol. III), PP. 1117-1118.
[16] En Banc Rollo (Vol. II), 816-817.

requirement of the law on prior authorization from the Sanggunian concerned before a local chief executive may enter into a contract. After all, the denial of the parties' Joint Compromise Agreement would not lead to unjust enrichment on the part of the government since the tax payments made pursuant to the above-mentioned agreements may be deducted from the existing and future real property tax liabilities of the LHC/NPC.

Also, settled is the rule that the government cannot be estopped by the mistakes, errors or omissions of its agents. It has been specifically held that estoppel does not apply to the government, especially on matters of taxation. Taxes are the nation's lifeblood through which government agencies continue to operate and with which the State discharges its functions for the welfare of its constituents. Thus, the government cannot be estopped from collecting taxes by the mistake, negligence, or omission of its agents. Upon taxation depends the ability of the government to serve the people for whose benefit taxes are collected. To safeguard such interest, neglect or omission of government officials entrusted with the collection of taxes should not be allowed to bring harm or detriment to the people.[17]

**WHEREFORE,** premises considered, respondent LHC's Motion for Partial Reconsideration (of the Resolution dated 17 March 2016) is hereby **DENIED** for lack of merit.

**SO ORDERED.**

**ROMAN G. DEL ROSARIO**
Presiding Justice

**JUANITO C. CASTAÑEDA, JR.**
Associate Justice

**LOVELL R. BAUTISTA**
Associate Justice

**ERLINDA P. UY**
Associate Justice

**CAESAR A. CASANOVA**
Associate Justice

[17] Visayas Geothermal Power Company v. CIR, G.R. No. 197525, June 4, 2014.

**ESPERANZA R. FABON-VICTORINO**
Associate Justice

**CIELITO N. MINDARO-GRULLA**
Associate Justice

**MA. BELEN M. RINGPIS-LIBAN**
Associate Justice