

THIRD DIVISION

[G.R. No. 143276, July 20, 2004]

**LANDBANK OF THE PHILIPPINES, PETITIONER, VS. SPOUSES
VICENTE BANAL AND LEONIDAS ARENAS-BANAL,
RESPONDENTS.**

D E C I S I O N

SANDOVAL-GUTIERREZ, J.:

Spouses Vicente and Leonidas Banal, respondents, are the registered owners of 19.3422 hectares of agricultural land situated in San Felipe, Basud, Camarines Norte covered by Transfer Certificate of Title No. T-6296. A portion of the land consisting of 6.2330 hectares (5.4730 of which is planted to coconut and 0.7600 planted to palay) was compulsorily acquired by the Department of Agrarian Reform (DAR) pursuant to Republic Act (R.A.) No. 6657,^[1] as amended, otherwise known as the Comprehensive Agrarian Reform Law of 1988.

In accordance with the formula prescribed in DAR Administrative Order No. 6, Series of 1992,^[2] as amended by DAR Administrative Order No. 11, Series of 1994,^[3] the Land Bank of the Philippines^[4] (Landbank), petitioner, made the following valuation of the property:

Acquired property	Area in hectares	Value
Coconut land	5.4730	P148,675.19
Riceland	0.7600	25,243.36
		=====
		P173,918.55

Respondents rejected the above valuation. Thus, pursuant to Section 16(d) of R.A. 6657, as amended, a summary administrative proceeding was conducted before the Provincial Agrarian Reform Adjudicator (PARAD) to determine the valuation of the land. Eventually, the PARAD rendered its Decision affirming the Landbank's valuation.

Dissatisfied with the Decision of the PARAD, respondents filed with the Regional Trial Court (RTC), Branch 40, Daet, Camarines Norte, designated as a Special Agrarian Court, a petition for determination of just compensation, docketed as Civil Case No. 6806. Impleaded as respondents were the DAR and the Landbank. Petitioners therein prayed for a compensation of P100,000.00 per hectare for both coconut land and riceland, or an aggregate amount of P623,000.00.

During the pre-trial on September 23, 1998, the parties submitted to the RTC the following admissions of facts: (1) the subject property is governed by the provisions

of R.A. 6657, as amended; (2) it was distributed to the farmers-beneficiaries; and (3) the Landbank deposited the provisional compensation based on the valuation made by the DAR.^[5]

On the same day after the pre-trial, the court issued an Order dispensing with the hearing and directing the parties to submit their respective memoranda.^[6]

In its Decision dated February 5, 1999, the trial court computed the just compensation for the coconut land at P657,137.00 and for the riceland at P46,000.00, or a total of P703,137.00, which is beyond respondents' valuation of P623,000.00. The court further awarded compounded interest at P79,732.00 in cash. The dispositive portion of the Decision reads:

"WHEREFORE, judgment is hereby rendered as follows:

1. Ordering respondent Landbank to pay the petitioners, the spouses Dr. Vicente Banal and Leonidas Arenas-Banal, for the 5.4730 hectares of coconut land the sum of SIX HUNDRED FIFTY-SEVEN THOUSAND ONE HUNDRED THIRTY-SEVEN PESOS (P657,137.00) in cash and in bonds in the proportion provided by law;
2. Ordering respondent Landbank to pay the petitioners for the .7600 hectares of riceland the sum of FORTY-SIX THOUSAND PESOS (P46,000.00) in cash and in bonds in the proportion provided by law; and
3. Ordering respondent Landbank to pay the petitioners the sum of SEVENTY-NINE THOUSAND SEVEN HUNDRED THIRTY-TWO PESOS (P79,732.00) as the compounded interest in cash.

IT IS SO ORDERED."^[7]

In determining the valuation of the land, the trial court based the same on the facts established in another case pending before it (Civil Case No. 6679, "Luz Rodriguez vs. DAR, et al."), using the following formula:

For the coconut land

1. Average Gross Production (AGP) x .70 x 9.70 (price per kilo of coconut) = Net Income (NI)
2. NI / 6% = Price Per Hectare (PPH) (applying the capitalization formula under **Republic Act No. 3844**^[8])

For the riceland

1. 2.5 x AGP x Government Support Price (GSP) = Land Value (LV) or PPH (using the formula under **Executive Order No. 228**^[9])
2. AGP x 6% compounded annually for 26 years x GSP = Interest (pursuant to DAR AO No. 13, Series of 1994)

Forthwith, the Landbank filed with the Court of Appeals a petition for review, docketed as CA-G.R. SP No. 52163.

On March 20, 2000, the Appellate Court rendered a Decision^[10] affirming *in toto* the judgment of the trial court. The Landbank's motion for reconsideration was likewise denied.^[11]

Hence, this petition for review on *certiorari*.

The fundamental issue for our resolution is whether the Court of Appeals erred in sustaining the trial court's valuation of the land. As earlier mentioned, there was no trial on the merits.

To begin with, under Section 1 of Executive Order No. 405 (1990), the Landbank is charged "primarily" with "the determination of the land valuation and compensation for all private lands suitable for agriculture under the Voluntary Offer to Sell or Compulsory Acquisition arrangement..." For its part, the DAR relies on the determination of the land valuation and compensation by the Landbank.^[12]

Based on the Landbank's valuation of the land, the DAR makes an offer to the landowner.^[13] If the landowner accepts the offer, the Landbank shall pay him the purchase price of the land after he executes and delivers a deed of transfer and surrenders the certificate of title in favor of the government.^[14] In case the landowner rejects the offer or fails to reply thereto, the DAR adjudicator^[15] conducts summary administrative proceedings to determine the compensation for the land by requiring the landowner, the Landbank and other interested parties to submit evidence as to the just compensation for the land.^[16] These functions by the DAR are in accordance with its quasi-judicial powers under Section 50 of R.A. 6657, as amended, which provides:

"SEC. 50. *Quasi-Judicial Powers of the DAR.* – The DAR is hereby vested with primary jurisdiction to determine and adjudicate agrarian reform matters and shall have exclusive original jurisdiction over all matters involving the implementation of agrarian reform, except those falling under the exclusive jurisdiction of the Department of Agriculture (DA) and the Department of Environment and Natural Resources (DENR).

x x x."

A party who disagrees with the decision of the DAR adjudicator may bring the matter to the RTC designated as a Special Agrarian Court^[17] "for final determination of just compensation."^[18]

In the proceedings before the RTC, it is mandated to apply the Rules of Court^[19] and, on its own initiative or at the instance of any of the parties, "appoint one or more commissioners to examine, investigate and ascertain facts relevant to the dispute, including the valuation of properties, and to file a written report thereof x x x."^[20] In determining just compensation, the RTC is required to consider several factors enumerated in Section 17 of R.A. 6657, as amended, thus:

"Sec. 17. *Determination of Just Compensation.* – In determining just compensation, the cost of acquisition of the land, the current value of like properties, its nature, actual use and income, the sworn valuation by the owner, the tax declarations, and the assessment made by government assessors shall be considered. The social and economic benefits contributed by the farmers and the farmworkers and by the Government to the property, as well as the non-payment of taxes or loans secured from any government financing institution on the said land, shall be considered as additional factors to determine its valuation."

These factors have been translated into a basic formula in DAR Administrative Order No. 6, Series of 1992, as amended by DAR Administrative Order No. 11, Series of 1994, issued pursuant to the DAR's rule-making power to carry out the object and purposes of R.A. 6657, as amended.^[21]

The formula stated in DAR Administrative Order No. 6, as amended, is as follows:

$$\text{"LV} = (\text{CNI} \times 0.6) + (\text{CS} \times 0.3) + (\text{MV} \times 0.1)$$

LV = Land Value

CNI = Capitalized Net Income

CS = Comparable Sales

MV = Market Value per Tax Declaration

The above formula shall be used if all the three factors are present, relevant and applicable.

A.1 When the CS factor is not present and CNI and MV are applicable, the formula shall be:

$$\text{LV} = (\text{CNI} \times 0.9) + (\text{MV} \times 0.1)$$

A.2 When the CNI factor is not present, and CS and MV are applicable, the formula shall be:

$$\text{LV} = (\text{CS} \times 0.9) + (\text{MV} \times 0.1)$$

A.3 When both the CS and CNI are not present and only MV is applicable, the formula shall be:

$$\text{LV} = \text{MV} \times 2"$$

Here, the RTC failed to observe the basic rules of procedure and the fundamental requirements in determining just compensation for the property. **Firstly**, it dispensed with the hearing and merely ordered the parties to submit their respective memoranda. Such action is grossly erroneous since the determination of just compensation involves the examination of the following factors specified in Section 17 of R.A. 6657, as amended:

1. the cost of the acquisition of the land;
2. the current value of like properties;
3. its nature, actual use and income;
4. the sworn valuation by the owner; the tax declarations;
5. the assessment made by government assessors;