

## THIRD DIVISION

**[ G.R. No. 194388, November 07, 2018 ]**

**METROPOLITAN WATERWORKS SEWERAGE SYSTEM,  
PETITIONER, VS. THE LOCAL GOVERNMENT OF QUEZON CITY,  
CITY TREASURER OF QUEZON CITY, CITY ASSESSOR OF QUEZON  
CITY, SANGGUNIANG PANLUNGSOD NG QUEZON CITY, AND CITY  
MAYOR OF QUEZON CITY, RESPONDENTS.**

### DECISION

**LEONEN, J.:**

A government instrumentality exercising corporate powers is not liable for the payment of real property taxes on its properties unless it is alleged and proven that the beneficial use of its properties been extended to a taxable person.

This resolves a Petition for Review on Certiorari<sup>[1]</sup> assailing the October 19, 2010 Decision<sup>[2]</sup> of the Court of Appeals in CA-G.R. SP No. 100733, which held that the Local Government of Quezon City may assess real property taxes on Metropolitan Waterworks and Sewerage System's properties located in Quezon City.

On June 19, 1971, Congress enacted Republic Act No. 6234,<sup>[3]</sup> creating the Metropolitan Waterworks and Sewerage System. Under the law, it was mandated "to insure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes and the proper operation and maintenance of sewerage systems."<sup>[4]</sup> It was granted the power to exercise supervision and control over all waterworks and sewerage systems within Metro Manila, Rizal, and a portion of Cavite.<sup>[5]</sup>

It was initially created as a corporation without capital stock. On March 29, 1974, then President Ferdinand Marcos issued Presidential Decree No. 425,<sup>[6]</sup> authorizing it to have an authorized capital stock of P1,000,000,000.00, divided into 10,000,000 shares at a par value of P100.00 each. Presidential Decree No. 425 further mandated that all shares of stock shall only be subscribed by the government. The stocks should not be "transferred, negotiated, pledged, mortgaged or otherwise given as security for the payment of any obligation."<sup>[7]</sup>

Sometime in July 2007, Metropolitan Waterworks and Sewerage System received several Final Notices of Real Property Tax Delinquency from the Local Government of Quezon City, covering various taxable years, in the total amount of P237,108,043.83 on the real properties owned by Metropolitan Waterworks and Sewerage System in Quezon City. The Local Government of Quezon City warned it that failure to pay would result in the issuance of warrants of levy against its properties.<sup>[8]</sup>

On August 7, 2007, the Treasurer's Office of Quezon City issued Warrants of Levy on

the properties due to Metropolitan Waterworks and Sewerage System's failure to pay.<sup>[9]</sup>

On September 10, 2007, the Local Government of Quezon City had a Notice of Sale of Delinquent Real Properties published, which stated that the real properties would be sold at a public auction on September 27, 2007. The list included properties owned by Metropolitan Waterworks and Sewerage System.<sup>[10]</sup>

On September 26, 2007, Metropolitan Waterworks and Sewerage System filed before the Court of Appeals a Petition for Certiorari and Prohibition with Prayer for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction.<sup>[11]</sup> It argued that its real properties in Quezon City were exclusively devoted to public use, and thus, were exempt from real property tax.<sup>[12]</sup>

The Court of Appeals issued a Temporary Restraining Order on September 27, 2007, enjoining the Local Government of Quezon City from proceeding with the scheduled auction of the properties. On November 14, 2007, the Court of Appeals conducted oral arguments. On December 19, 2007, it issued a Writ of Preliminary Injunction.<sup>[13]</sup>

On October 19, 2010, the Court of Appeals rendered a Decision<sup>[14]</sup> denying the Petition for lack of merit and lifting the Writ of Preliminary Injunction.

According to the Court of Appeals, Metropolitan Waterworks and Sewerage System need not exhaust administrative remedies since the issue involved a purely legal question.<sup>[15]</sup> It noted, however, that the Petition should have been first filed before the Regional Trial Court, which shares concurrent jurisdiction with the Court of Appeals over petitions for certiorari and prohibition.<sup>[16]</sup> Nonetheless, it proceeded to resolve the case on its merits.<sup>[17]</sup>

The Court of Appeals found that since Metropolitan Waterworks and Sewerage System was not a municipal corporation, it could not invoke the immunity granted in Section 133(o) of the Local Government Code.<sup>[18]</sup> In particular, it found that even if Metropolitan Waterworks and Sewerage System was an instrumentality of the government, it was not performing a purely governmental function. As such, it cannot invoke immunity from real property taxation.<sup>[19]</sup>

The Court of Appeals likewise found that the taxed properties were not part of the public dominion, but were even made the subject of concession agreements between Metropolitan Waterworks and Sewerage System and private concessionaires due to its privatization in 1997. It concluded that since the properties were held by Metropolitan Waterworks and Sewerage System in the exercise of its proprietary functions, they were still subject to real property tax.<sup>[20]</sup>

The dispositive portion of the Court of Appeals October 19, 2010 Decision stated:

**WHEREFORE**, in view of the foregoing premises, judgment is hereby rendered by us **DENYING** the instant petition for lack of merit. The Writ of Preliminary Injunction issued herein is hereby ordered **LIFTED**.

**SO ORDERED.**<sup>[21]</sup> (Emphasis in the original)

On November 9, 2010, Warrants of Levy were issued by the Quezon City Treasurer over Metropolitan Waterworks and Sewerage System's properties.<sup>[22]</sup> Hence, on November 18, 2010, Metropolitan Waterworks and Sewerage System filed its Petition for Certiorari with Prayer for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction<sup>[23]</sup> before this Court.

On December 14, 2010, petitioner filed a Very Urgent Reiteratory Motion for Issuance of Temporary Restraining Order and/or Writ of Preliminary Injunction.<sup>[24]</sup>

Acting on this Motion, this Court resolved to Issue a Temporary Restraining Order on January 26, 2011.<sup>[25]</sup>

Respondents filed a Consolidated Motions to Dismiss<sup>[26]</sup> and a Motion for Extension of Time to File Comment.<sup>[27]</sup> In its April 11, 2011 Resolution,<sup>[28]</sup> this Court resolved to deny the Consolidated Motions to Dismiss but to grant the Motion for Extension of Time to file comment. Respondents, thus, filed their Comment<sup>[29]</sup> on April 19, 2011.

While the Petition was pending, however, respondent City Treasurer of Quezon City submitted a Manifestation<sup>[30]</sup> stating that he intended to auction petitioner's Lot Nos. 1, 2, and 3 of Block PCS-8998, located in Barangay Pasong Putik, Quezon City on July 7, 2011. He reasoned that these properties were not included among those covered in this Court's January 26, 2011 Temporary Restraining Order.<sup>[31]</sup>

Petitioner filed a Counter-Manifestation *Ad Cautelam*,<sup>[32]</sup> arguing that while these properties were not included among the properties covered by the January 26, 2011 Temporary Restraining Order, they fall under the same or similar category as those properties that were covered. It contends that if these properties were auctioned, the issue in the Petition would be rendered moot.<sup>[33]</sup>

In its September 7, 2011 Resolution,<sup>[34]</sup> this Court issued a Temporary Restraining Order preventing respondents from proceeding with the auction of petitioner's Lot Nos. 1, 2, and 3 of Block PCS-8998.

The parties subsequently submitted their respective memoranda<sup>[35]</sup> before this Court.

Petitioner maintains that it is a government instrumentality exempt from real property taxation under Section 133(o)<sup>[36]</sup> of the Local Government Code. In particular, it argues that it is a regulatory body mandated to oversee the operations of its two (2) private concessionaires, the Manila Water Company, Inc. and the Maynilad Water Services, Inc. It points out that Republic Act No. 6234, Section 18, as amended by Presidential Decree No. 425,<sup>[37]</sup> expressly exempts it from the payment of real property taxes.<sup>[38]</sup>

Citing *Manila International Airport Authorities v. Court of Appeals*<sup>[39]</sup> and *Philippine*

*Fisheries Development Authority v. Central Board of Assessment Appeals*,<sup>[40]</sup> petitioner argues that it is exempt from taxation as it is an instrumentality of the government holding properties of the public dominion. It likewise cites Republic Act No. 10149,<sup>[41]</sup> passed on July 26, 2010, which lists petitioner as one of the government instrumentalities with corporate powers.<sup>[42]</sup>

Respondents, on the other hand, point out that petitioner failed to observe the principle of the hierarchy of courts when it filed the case directly before the Court of Appeals, instead of the Regional Trial Court, which exercises concurrent jurisdiction in petitions for certiorari.<sup>[43]</sup>

They maintain that petitioner holds properties in the exercise of its proprietary functions, and thus, are susceptible to real property tax.<sup>[44]</sup> They point out that tax exemption granted in Republic Act No. 6234, Section 18 has since been repealed by Section 234<sup>[45]</sup> of the Local Government Code.<sup>[46]</sup> They likewise assert that petitioner has since recognized its tax liabilities when it paid respondents a down payment of P30,000,000.00, and when it committed to pay the balance not later than April 2011.<sup>[47]</sup>

This Court is asked to resolve a pure question of law: whether a local government unit may assess real property taxes on petitioner Metropolitan Waterworks and Sewerage System, a government entity.

Before this issue can be resolved, however, this Court will first pass upon the issue of whether or not petitioner Metropolitan Waterworks and Sewerage System violated the principle of hierarchy of courts in directly bringing the case to the Court of Appeals instead of to the Regional Trial Court.

## I

The principle of the hierarchy of courts is a judicial policy designed to restrain direct resort to *this Court* if relief can be granted or obtained from the lower courts. As this Court explained in *Aala v. Uy*:<sup>[48]</sup>

The doctrine on hierarchy of courts is a practical judicial policy designed to restrain parties from directly resorting to this Court when relief may be obtained before the lower courts. The logic behind this policy is grounded on the need to prevent "inordinate demands upon the Court's time and attention which are better devoted to those matters within its exclusive jurisdiction," as well as to prevent the congestion of the Court's dockets. Hence, for this Court to be able to "satisfactorily perform the functions assigned to it by the fundamental charter[,]" it must remain as a "court of last resort." This can be achieved by relieving the Court of the "task of dealing with causes in the first instance."<sup>[49]</sup>

This Court shares concurrent jurisdiction in the issuance of writs of certiorari, prohibition, mandamus, quo warranto, and habeas corpus with the Regional Trial Court and the Court of Appeals.<sup>[50]</sup> As it stated in *Aala*, the principle of the hierarchy of courts prevents parties from randomly selecting which among these forums their actions will be directed. *Diocese of Bacolod v. Commission on*

*Elections*<sup>[51]</sup> likewise explained the rationale behind this Court's adherence to the principle:

Trial courts do not only determine the facts from the evaluation of the evidence presented before them. They are likewise competent to determine issues of law which may include the validity of an ordinance, statute, or even an executive issuance in relation to the Constitution. To effectively perform these functions, they are territorially organized into regions and then into branches. Their writs generally reach within those territorial boundaries. Necessarily, they mostly perform the all-important task of inferring the facts from the evidence as these are physically presented before them. In many instances, the facts occur within their territorial jurisdiction, which properly present the 'actual case' that makes ripe a determination of the constitutionality of such action. The consequences, of course, would be national in scope. There are, however, some cases where resort to courts at their level would not be practical considering their decisions could still be appealed before the higher courts, such as the Court of Appeals.

The Court of Appeals is primarily designed as an appellate court that reviews the determination of facts and law made by the trial courts. It is collegiate in nature. This nature ensures more standpoints in the review of the actions of the trial court. But the Court of Appeals also has original jurisdiction over most special civil actions. Unlike the trial courts, its writs can have a nationwide scope. It is competent to determine facts and, ideally, should act on constitutional issues that may not necessarily be novel unless there are factual questions to determine.

This court, on the other hand, leads the judiciary by breaking new ground or further reiterating in the light of new circumstances or in the light of some confusions of bench or bar existing precedents. Rather than a court of first instance or as a repetition of the actions of the Court of Appeals, this court promulgates these doctrinal devices in order that it truly performs that role.<sup>[52]</sup> (Citation omitted)

Respondents assail petitioner's direct resort of its Petition for Certiorari to the Court of Appeals, arguing that the Petition should have been filed before the Regional Trial Court, which shares concurrent jurisdiction.

The doctrine of the hierarchy of courts, however, is often invoked in direct resorts to *this Court*. Hence, the exceptions to the rule are more tailored to the specific functions and discretion of *this Court*:

Immediate resort to this Court may be allowed when any of the following grounds are present: (1) when genuine issues of constitutionality are raised that must be addressed immediately; (2) when the case involves transcendental importance; (3) when the case is novel; (4) when the constitutional issues raised are better decided by this Court; (5) when time is of the essence; (6) when the subject of review involves acts of a constitutional organ; (7) when there is no other plain, speedy, adequate remedy in the ordinary course of law; (8) when the petition includes questions that may affect public welfare, public policy, or demanded by