ADMINISTRATIVE ORDER NO. 6
Series of 1989

(6) SUBJECT: RULES AND PROCEDURES ON LAND VALUATION AND JUST COMPENSATION

I. PREFATORY STATEMENT

A. Sections 17 and 18 of R.A. 6657 provide the general law on land valuation and just compensation. The law states that in determining just compensation the following factors shall be taken into account: (a) the cost of acquisition of the land; (b) its nature, actual use and income; (c) the sworn valuation by the owner; (d) the assessment made by government assessors; (e) the social and economic benefit contributed by the farmers, farmworkers and by the government; and (f) taxes and loans.

B. The Land Bank of the Philippines (LBP) is mandated to compensate the landowner in the amount that may be agreed upon among the landowner, the Department of Agrarian Reform (DAR) and the LBP. In case of disagreement, the Secretary of Agrarian Reform shall determine the just compensation for the land. However, anyone who disagrees may bring the matter to the special agrarian court for the final determination of just compensation.

C. The compensation shall be made either in cash, in shares of stocks in government owned or controlled corporations, LBP preferred shares, physical assets or other qualified investments in accordance with the rules set by the Presidential Agrarian Reform Council (PARC); in tax credits; and/or in LBP bonds with the features provided for under Section 18.

II. STATEMENT OF POLICY

The final determination of just compensation is a judicial function. However, DAR as the lead implementing agency of the CARP may initially determine the value of lands covered by the CARP.

III. COVERAGE

This valuation guideline shall apply to all agricultural lands as enumerated under Section 4 of R.A. 6657. However, lands previously covered by P.D. 27, i.e., tenanted rice and corn lands, shall continue to be governed by Executive Order 228.

These rules shall also apply to lands voluntarily offered, lands which are subject to voluntary transfer, those acquired through compulsory process, and those covered by corporate stock transfers.

IV. BASIS FOR THE VALUATION FORMULA

The basic valuation methodology prescribed under these rules makes use of the multi-variable approach which subsumes the ten factors mentioned under Section 17. This involves an estimation of a composite value based on land market price, assessor's market value and landowner's declared value.

Reduced to equation form, such formulation will be of the form:

$$TLV = \frac{MV + AMV + DV}{3}$$

where:

TLV = Market Value - refers to the latest and comparable transactions within the muncipality/province/ region, depending on availability of data. Mortgages which take into account bank exposures shall also be considered in computing for this value.

AMV = Assessor's Market Value - refers to the assessment made by government assessors.

DV = Declared Value - refers to the landowner's declaration per E.O. 229 or R.A. 6657. In no case shall this declaration exceed 200% of the average of the adjusted values of MV and AMV. In the absence of such declaration, the value of DV shall be based on this upper limit.

In case of idle and abandoned lands where MV could not be obtained, the values of AMV and DV shall be used divided by two, i.e., $\frac{AMV + DV}{2}$.

In all cases, adjustments for inflation shall be made using the appropriate Provincial Consumer's Price Index officially published by the National Census and Statistics Office (NCSO).

V. PROCEDURES

A. Land Value

1. Establish the land value as agreed upon by the DAR, LBP and the landowner, provided the same shall not exceed the value determined under these rules.

2

2. Get recent transactions (sales, mortgages/ leases, etc.) on the basis of land use or crops in the municipality.

3. Get the latest tax declarations. Use the AMV and further adjust for inflation from the date of declaration to the date of coverage using the CPI for the region.

4. Get the landowner's Declared Value (DV) from Listasaka form or VOS offered value whichever is lower. In the absence of Listasaka declaration, or in case land is not voluntarily offered, get the average of the adjusted values of MV and AMV which should not exceed 200% of such averages.

5. Compute the land value using the formula:

$$TLV = \frac{MV + AMV + DV}{3}$$

6. Adjust for the inflation factor (IF) using the formula:

$$IF = \frac{\text{CPI (current)}}{\text{CPI at date of declaration or assessment}}$$

7. Compute the adjusted values of MV and AMV.

Example : Date of latest transaction - 1983

Average value of the latest transaction in 1983 - ₱10,000

Then : 1988 MV = ₱10,000 (IF)

$= ₱10,000 \left(\frac{398.5}{195.5}\right)$

= ₱10,000 (2.09)

= ₱29,090

B. Improvements

The basis for payment of improvements shall be the principle of accession. Only improvements which directly contribute to the economic productivity of the land shall be paid.

1. Determine the following:

a) Date of completion of the improvement

b) Number of years improvement has been in existence

J

c) Construction cost

d) Estimated life span of the improvement

e) Estimated salvage value

2. Compute the present value of the improvement using this formula:

$$PV = CC\ (IF) - TD\ (IF)$$

$$PV = (CC - TD)\ (IF)$$

where:

PV = Present value of the improvement

CC = Construction Cost (Given)

TD = Total Depreciation

IF = Inflation Factor

3. Compute the values of IF and TD using these formulas:

$$IF = \frac{\text{Consumer Price Index (current)}}{\text{CPI at time of construction}}$$

TD = Annual Depreciation (AD) x Number of Years Life Span of Improvement

Where:

$$AD = \frac{\text{Construction Cost} - \text{Salvage Value (SV)}}{\text{Expected Life Span of Improvement}}$$

$$SV = \frac{\text{Construction Cost (CC)}}{\text{No. of Years Improvement has Existed}}$$

4. Substitute all values obtained in the original equation.

5. The value of land transferred to DAR from the Asset Privatization Trust (APT), Presidential Commission on Good Government (PCGG) or other agencies shall be based on their appraised value prepared by said agencies, provided that the same is lower than the value determined in accordance with Item No. V.A.7 above; or, in case of rice and corn land covered by P.D. 27, in accordance with E.O. 228.

VI. COMPENSATION

For purposes of compensation, the Land Bank shall deduct the corresponding liens/encumbrances on the

J

property and the land taxes and charges paid by the bank. Contributions made by the government and/or the farmer beneficiary on the land in the form of improvements shall also be considered.

VII. EFFECTIVITY

This Administrative Order shall take effect ten (10) days after its publication in two (2) national newspapers of general circulation pursuant to Section 49 of R.A. 6657. All orders, circulars, rules and regulations inconsistent herewith are hereby revoked, amended, or modified as the case may be.

Quezon City, March 8, 1989.

Philip Ella Juico

PHILIP ELLA JUICO
Secretary

PUBLISHED : March 13 Mla. Chronicle
Daily Inquirer

DATE OF EFFECTIVITY : March 22