

Title: Flavio K. Macasaet & Associates, Inc. v. Commission on Audit and Philippine Tourism Authority

Facts:

On 15 September 1977, Flavio K. Macasaet & Associates, Inc. (petitioner) entered into a contract with the Philippine Tourism Authority (PTA, respondent) for the provision of “Project Design and Management Services” for the development of the Zamboanga Golf and Country Club. Under this agreement, PTA was to pay the petitioner a professional fee amounting to 7% of the actual construction cost. Over time, the PTA made periodic payments to the petitioner in accordance with a provided Schedule of Payments. After the project’s completion and subsequent payment by PTA to Supra Construction Company (main contractor) of an additional sum due to construction material price escalation, petitioner requested for an additional professional fee of P219,302.47, representing 7% of the escalated cost. PTA denied this request, leading to successive appeals by the petitioner that were ultimately dismissed by the Commission on Audit (COA). The petitioner then filed a petition for certiorari with the Supreme Court.

Issues:

1. Whether the price escalation due to the increase in the cost of construction materials constitutes part of the “final actual project cost,” entitling the petitioner to additional professional fees.
2. The applicability of the contract terms regarding the calculation of professional fees based on actual project cost.
3. The relevance of contractual obligations and the principle of equity in the interpretation of contract terms.

Court’s Decision:

The Supreme Court ruled in favor of the petitioner, setting aside the COA’s ruling and ordering the PTA to pay the additional requested professional fee of P219,302.47. The Court’s decision underscored that the terminologies used in the contract, particularly “actual construction cost” evolving into “final actual project cost,” indicated that the contract was intended to account for all costs as determined at the project’s completion, thereby including the escalation cost. The Court clarified that the escalation cost, although not entailing additional work for the petitioner, was logically encompassed within the “final actual project cost,” essentially validating the petitioner’s claim for additional fees.

Doctrine:

The ruling reinforced principles related to contractual obligations, highlighting that obligations arising from contracts hold the force of law between contracting parties and should be fulfilled in good faith. Moreover, the decision illustrated the interpretative significance of contract terms, demonstrating that clear terminologies in a contract should be understood to dictate the intentions of the contracting parties and guide contractual compliance.

Class Notes:

- Key Concepts: contractual obligations, interpretation of contract terms, actual vs. estimated construction costs, price escalation.
- Relevant Statutes:
  1. "Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith." (Article 1159, Civil Code of the Philippines)
  2. "The literal meaning of the stipulations in a contract shall control if the terms of the contract are clear and leave no doubt as to the intentions of the contracting parties." (Article 1370, Civil Code of the Philippines)

Historical Background:

The case exemplifies the legal challenges and intricacies encountered in contractual arrangements, especially in large-scale construction projects. It reflects the evolving nature of construction costs and the necessity for contracts to adapt to these changes. The ruling underscores the judiciary's role in interpreting contract terms and ensuring equitable arrangements, thereby setting a precedent for similar future disputes.