

Title:

Solante v. Commission on Audit: Reclamation Project Compensation Dispute

Facts:

The case involves a lengthy dispute originating from a reclamation project contract entered into on April 26, 1989, between the City of Mandaue and F.F. Cruz and Co., Inc. (F.F. Cruz). Per the agreement, F.F. Cruz was to reclaim 180 hectares of foreshore and submerged lands at its own expense, with completion estimated in six years. Additionally, a Memorandum of Agreement (MOA) allowed F.F. Cruz to construct temporary structures on city-owned land to house its personnel.

Subsequent to these agreements, the Metro Cebu Development Project II necessitated the demolition of F.F. Cruz's structures for road widening. F.F. Cruz was compensated PhP 1,084,836.42 for the demolition, a payment processed by Rowena B. Rances (now Rowena Rances-Solante), which later led to the dispute.

The payment attracted scrutiny, leading to an audit by the Commission on Audit (COA), which resulted in a Notice of Disallowance owing to F.F. Cruz allegedly no longer being the lawful owner of the structures at the time of payment. Both a motion for reconsideration and an appeal were filed but subsequently denied by COA.

Parallel to this, a letter-complaint about the payment led to a case being filed with the Office of the Ombudsman, which was eventually dismissed for lack of merit.

The case advanced to the Supreme Court following the COA's resolution that reaffirmed the disallowance of the payment which had then become final and executory, prompting Solante to file a petition for review under Rule 64.

Issues:

1. The determination of the rightful owner of the properties at the time of demolition.
2. Whether the COA committed grave abuse of discretion in affirming the Notice of Disallowance.

Court's Decision:

The Supreme Court granted Solante's petition, reversing the COA's decisions and the Notice of Disallowance. The Court held that the COA and its audit team misinterpreted the MOA's provisions relating to project completion and contract termination. It was determined that the ownership of the structures remained with F.F. Cruz until the project's actual

completion, contrary to the COA's position that the City of Mandaue automatically owned the structures after a certain period.

The Court found that no specific period had been fixed within which F.F. Cruz was obliged to complete the project, with the six-year duration being a mere estimate, not a deadline causing automatic delay upon lapsing. The Court also noted the absence of a demand from the City of Mandaue for F.F. Cruz to complete its obligation, critical under the Civil Code to establish delay.

Doctrine:

The Court emphasized the principles governing obligations with a period under Article 1193 of the Civil Code, the conditions for the incurrance of delay under Article 1169, and the necessity of demand for the fulfillment of obligations, especially in cases where a project's completion period is an estimate rather than a fixed deadline.

Class Notes:

- **Obligations with a Period**: Obligations are only demandable when the specified day arrives. A mere estimate does not constitute a "day certain."
- **Demand and Delay**: For a debtor to be in delay, there must be a demandable and liquidated obligation, a failure to perform upon demand, and the creditor must require performance either judicially or extrajudicially, except under specific conditions outlined in Article 1169 of the Civil Code.
- **Project Completion and Ownership Transfer**: The ownership of improvements made under a contract does not automatically transfer upon the lapse of an estimated completion period; actual project completion is necessary.

Historical Background:

This case highlights the complexities surrounding government contracts, property rights, and the legal interpretations of contractual obligations and ownership. It underscores the importance of clear terms and agreement on project timelines and ownership conditions in public-private partnerships, particularly in large-scale development projects.