

Title: EPG Construction vs. Secretary of Public Works and Highways

Facts:

- Initiation of Project:** In 1983, the Ministry of Human Settlement, through the BLISS Development Corporation, began a housing project on government property along the east bank of the Manggahan Floodway in Pasig City, Philippines.
- MOA Execution:** The Ministry of Human Settlement and the Ministry of Public Works and Highways (MPWH) entered into a Memorandum of Agreement (MOA) where MPWH was tasked to develop the housing site and build 145 housing units.
- Individual Contracts:** MPWH executed specific contracts with various construction companies (petitioners) for constructing the housing units.
- Additional Work Undertaken:** Despite the contracts covering only about “2/3 of each housing unit,” the contractors consented to undertake additional construction on assurances from then DPWH Undersecretary Canlas for forthcoming funds, without appropriations and written contracts.
- Final Payment Issues:** Initial contracted works were paid, but the additional construction totaling P5,918,315.63 remained unpaid.
- Demand for Payment:** On November 14, 1988, contractors demanded payment, supported by a favorable recommendation from DPWH’s Legal Services.
- Forwarding to COA:** The claim was referred to the Commission on Audit (COA), which returned it to DPWH upon clarifying funds must be available first.
- Request for Funds:** DPWH Secretary De Jesus requested budget allocation which was partially released on December 20, 1994.
- Continuous Referrals and Denials:** Despite initial favorable evaluations by internal DPWH officials, the new DPWH Secretary Gregorio Vigilar denied the claim on August 26, 1996.
- Filing for Mandamus:** Contractors filed for Mandamus in the Regional Trial Court of Quezon City, praying for the release of funds, moral, and exemplary damages, but the Petition was dismissed on November 7, 1997.
- Petition to Supreme Court:** Contractors sought the reversal of the decision.

Issues:

- Entitlement to Compensation:** Are the contractors entitled to compensation for additional constructions undertaken beyond the scope of the original contracts?
- Validity of Implied Contracts:** Does the absence of appropriations, written contracts, and certifications of availability of funds invalidate the implied contracts for additional works?

3. **State Immunity:** Does the principle of Non-suability of the State allow the respondent to deny the money claims of the contractors?

Court's Decision:

1. **Entitlement to Compensation:** Although the implied contracts were void because they did not conform to legal requirements (no appropriations, absence of written contracts, and certifications), the Court held that contractors were entitled to compensation based on quantum meruit. This principle ensures fair compensation for services rendered when no formal contract exists between the parties.

2. **Validity of Implied Contracts:** While the implied contracts are technically void, the Court emphasized the good faith belief of contractors that funds would be available and highlighted substantial public and governmental benefit received from the completed work. The doctrine of quantum meruit was applied to address the work done.

3. **State Immunity:** The Court rejected respondent's application of State immunity, stressing it should not facilitate injustice, referencing jurisprudence (*Amigable vs. Cuenca* and *Ministerio vs. CFI of Cebu*) where the State's immunity does not prevent fair compensation for services rendered.

The Supreme Court reversed the lower court's decision, directing COA to ascertain and allow payment based on quantum meruit.

Doctrine:

1. **Quantum Meruit:** Contractors can recover compensation based on quantum meruit for work and services rendered to benefit the public and government, even without formal contracts and appropriations.

2. **Limitations of State Immunity:** The State's immunity from suit is not absolute and will yield to prevent injustice.

Class Notes:

- **Quantum Meruit:** Allows equitable compensation where no contract exists, focusing on the reasonable value of services rendered.

- **Void Contracts Post-Compliance:** Contracts entered without meeting statutory conditions can be void but still actionable under equity (based on principles like quantum meruit).

- **State Liability:** Under specific circumstances, the State can be held liable to ensure justice and prevent unfair enrichment.

- **Legal Provisions:** Non-compliance with Sections 46 and 47, Chapter 7, Sub-Title B,

Title I, Book V of Administrative Code 1987 invalidates contracts.

****Historical Background:****

This case emerged in the context of the 1980s housing development initiatives by the Philippine government, aimed at alleviating housing shortages amidst rapid urbanization. The legal battle underscores the tensions between bureaucratic rigidity (regulating public fund expenditures) and equity principles ensuring fair compensation for public-beneficial works. The decision highlights the judiciary's role in balancing strict statutory compliance with substantial justice, particularly in public service projects undertaken in good faith.