

Title: Philippine Reclamation Authority vs. Romago, Incorporated

Facts:

In 1992, Congress enacted Republic Act 7227, creating the Bases Conversion and Development Authority (BCDA) for converting former military reservations for productive use. Following this, portions of Fort Bonifacio were designated for the Heritage Park Project. On August 9, 1993, BCDA entered into a Memorandum of Agreement (MOA) with the Philippine Reclamation Authority (PRA), tasking it as the Project Manager. A Pool Formation Trust Agreement (PFTA) was executed on September 9, 1994, with BCDA, PRA, and the Philippine National Bank (PNB), outlining roles for each in the project execution and management, including the issuance of Heritage Park Investment Certificates.

After a public bidding, PRA awarded the outdoor electrical and lighting works to Romago, Incorporated (Romago) with a contract dated March 18, 1996. The construction began immediately post PRA's notice.

The Heritage Park Management Corporation (HPMC) was formed to manage the project later on. On February 24, 2000, PRA's management was terminated by HPMC, necessitating a turnover of project management responsibilities and relevant documents and equipment. Thereafter, PRA informed Romago of the termination of its services and an assignment of the contract to HPMC. This transfer was refused recognition by HPMC.

Romago, facing unanswered financial claims against PRA for the construction, filed a complaint with the Construction Industry Arbitration Commission (CIAC) on March 17, 2004, which led to proceedings culminating in a CIAC decision on October 22, 2004, holding PRA and HPMC jointly and severally liable to Romago for various amounts due under the contract. This decision was later contested in the Court of Appeals (CA) which modified the CIAC award. Further appeals were made to the Supreme Court by both PRA and Romago, leading to the consolidation of these cases.

Issues:

1. Whether or not the CA erred in holding the PRA still liable to Romago under the Construction Agreement despite the handover of the Heritage Park Project to HPMC.
2. Whether or not the CA erred in modifying the CIAC award for actual damages to Romago.

Court's Decision:

The Supreme Court affirmed the CA's decision but with modification concerning the interest on the award. The Court rejected PRA's defense of novation, which suggested that its liabilities were extinguished when it assigned its obligations to HPMC, focusing on the fact that a valid novation requires the consent of all parties involved—which in this case, did not happen as Romago did not agree to the assignment to HPMC. Furthermore, the termination of PRA's obligations was conditional, not absolute, pointing out that HPMC's assumption did not inherently include taking over PRA's liabilities toward Romago. Therefore, PRA remained liable to Romago.

Additionally, the Court upheld the reduced award by the Court of Appeals, noting that Romago had effectively received a significant portion of the payment for work completed and did not adequately dispute the PRA's reported figures during the proceedings.

Doctrine:

In cases of novation, all parties involved must consent to the new contract for it to extinguish the obligations under the old contract. The Court reiterated principles on the requirements for a valid novation and clarified that turnover of projects does not automatically transfer contractual liabilities to the assignee without the clear consent of all parties involved.

Class Notes:

- ****Novation**** requires (a) a previous valid obligation, (b) agreement of all parties to the new contract, (c) extinguishment of the old contract, and (d) the validity of the new one.
- ****Contractual Liability**** cannot be unilaterally transferred without the consent of the contracting parties.
- ****Interest on Legal Awards**** should be computed as legal interest of 6% per annum from the date of the judgment until fully satisfied.
- ****Arbitration in Construction Disputes****: The CIAC holds jurisdiction over construction contracts disputes, but the jurisdiction and enforceability of arbitration agreements also depend on the consent of the parties involved.

Historical Background:

This case reflects the complexities involved in managing and executing government-contracted projects, especially those involving multiple entities and transitioning management structures. It underscores the legal principles governing contract novation,

party consent, and liability assignments, emphasizing the importance of clear agreements and consents in contractual relationships.