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SECOND DIVISION

[G.R. No. 202322, August 19, 2015]

LIGHT RAIL TRANSIT AUTHORITY, PETITIONER, VS. ROMULO S. MENDOZA, FRANCISCO S. MERCADO, ROBERTO M. REYES, EDGARDO CRISTOBAL, JR., AND RODOLFO ROMAN, RESPONDENTS.

DECISION

BRION, J.:

For resolution is the present petition for review on *certiorari*[1] which seeks the reversal of the January 31, 2012 Decision[2] and June 15, 2012 Resolution[3] of the Court of Appeals in CA-G.R. SP No. 109224.

The Antecedents

The Light Rail Transit Authority (*LRTA*) is a government-owned and -controlled corporation created under Executive Order No. 603 for the construction, operation, maintenance, and/or lease of light rail transit systems in the Philippines.

To carry out its mandate, LRTA entered into a ten-year operations and management (*O & M*) agreement[4] with the Meralco Transit Organization, Inc. (*MTOI*) from June 8, 1984, to June 8, 1994, for an annual fee of P5,000,000.00. Subject to specified conditions, and in connection with the operation and maintenance of the system not covered by the O & M agreement, LRTA undertook to reimburse MTOI such operating expenses and advances to the revolving fund.

"***Operating expenses***" included "all salaries, wages and fringe benefits (both direct and indirect) up to the rank of manager, and a lump sum amount to be determined annually as top management compensation (above the rank of manager up to president), subject to consultation with the LRTA." MTOI hired the necessary employees for its operations and forged collective bargaining agreements (*CBAs*) with the employees' unions, with the LRTA's approval.

On June 9, 1989, the Manila Electric Company, who owned 499,990 of MTOI shares of stocks, sold said shares to the LRTA. Consequently, MTOI became a wholly owned subsidiary of LRTA. MTOI changed its corporate name to *Metro Transit Organization, Inc.* (*METRO*), but maintained its distinct and separate personality. LRTA and METRO renewed the O & M agreement upon its expiration on June 8, 1994, extended on a month-to-month basis.[5]

On July 25, 2000, the *Pinag-isang Lakas ng Manggagawa sa METRO, INC.*, the rank-and-file union at METRO, staged an illegal strike over a bargaining deadlock, paralyzing the operations of the light rail transport system. On July 28, 2000, the

LRTA Board of Directors issued Resolution No. 00-44[6] where LRTA agreed to shoulder METRO'S operating expenses for a maximum of two months counted from August 1, 2000. **It also updated the Employee Retirement Fund.**

Because of the strike, LRTA no longer renewed the O & M agreement when it expired on July 31, 2000, resulting in the cessation of METRO'S operations and the termination of employment of its workforce, including the **respondents** Romulo Mendoza, Francisco Mercado, Roberto Reyes, Edgardo Cristobal, Jr., and Rodolfo Roman.

On April 1, 2001, the METRO Board of Directors authorized the payment of 50 % of the dismissed employees' separation pay, **to be sourced from the retirement fund**. In May 2001, respondents received one half (1/2) of their separation pay. Dissatisfied, they demanded from LRTA payment of the 50% balance of their separation pay, but LRTA rejected the demand, prompting them to file on August 31, 2004, a formal complaint,[7] before the labor arbiter, against LRTA and METRO.

LRTA moved to dismiss the complaint on grounds of absence of employer-employee relationship with the respondents, lack of jurisdiction and of merit, and prescription of action.

The Compulsory Arbitration Rulings

In his decision[8] dated August 8, 2005, Labor Arbiter (LA) Arthur L. Amansec pierced the veil of METRO'S corporate fiction, invoked the law against labor-only contracting, and declared LRTA solidarity liable with METRO for the payment of the remaining 50% of respondents' separation pay. On appeal by the LRTA, the National Labor Relations Commission (NLRC) affirmed in its decision[9] of December 23, 2008, LA Amansec's ruling, thereby dismissing the appeal. It also held that the case had not prescribed. LRTA moved for reconsideration, but the NLRC denied the motion in its resolution[10] of March 30, 2009.

The Case before the CA

LRTA challenged the NLRC decision before the CA through a petition for *certiorari* under Rule 65 of the Rules of Court, contending that the labor tribunal committed grave abuse of discretion when it (1) assumed jurisdiction over the case; (2) held that it was an indirect employer of the respondents with solidary liability for their claim; and (3) took cognizance of the case despite its being barred by prescription.

LRTA argued that as a government-owned and -controlled corporation, all actions against it should be brought before the Civil Service Commission, not the NLRC, pursuant to Article IX-B, Section 2 (1) of the Constitution, as declared by this Court's decision in the consolidated cases of *LRTA v. Venus, Jr.*, and *METRO v. Court of Appeals* (*Venus case*).[11] It further argued that it could not be made solidarity liable with METRO for the respondents' claim since METRO is an independent job contractor.

In a different vein, LRTA stressed that its Resolution No. 00-44 updating the retirement fund for METRO employees was merely a financial assistance to METRO, which neither created an employer-employee relationship between it and the METRO

employees, nor did it impose a contractual obligation upon it for the employees' separation pay. Lastly, it reiterated that respondents' claim had already prescribed since they filed the complaint beyond the three-year period under Article 306 of the Labor Code (formerly Article 291; re-numbered by **R.A. 10151, *An Act Allowing the Employment of Nightworkers***).[12]

The respondents, for their part, prayed for the dismissal of the petition, relying on an earlier case involving the same cause of action decided by the CA, *LRTA v. NLRC and Ricardo B. Malanao, et al.*,[13] and which had become final and executory on February 21, 2006.[14] In that case, they pointed out, LRTA was held solidarity liable with METRO, as an indirect employer, for the payment of the severance pay of METRO'S separated employees.

In the meantime, or on June 3, 2010, LA Amansec issued a *Writ of Execution*[15] for his August 8, 2005 decision. On August 5, 2010, respondents filed an *Urgent Manifestation*[16] stating that pursuant to the labor arbiter's order, LRTA's cash bond covered by Check No. LB0000007505, dated September 20, 2005, for P1,082,929.16 had been released to them. Thus, they considered the case to have become academic.

The CA Decision

The CA affirmed the NLRC ruling that LRTA is solidarity liable for the remaining 50% of respondents' separation pay, but not squarely on the same grounds. Unlike the NLRC, it considered inapplicable the doctrine of *piercing the veil of corporate fiction* to justify LRTA's solidary liability due to the absence of fraud or wrongdoing on LRTA's part in relation to the nonpayment of the balance of the respondents' separation pay as this Court had stated in the *Venus* case.[17]

The CA likewise disagreed with the NLRC's opinion that METRO is a labor-only contractor so as to make LRTA the respondents' direct employer. It explained that METRO was a corporation with sufficient capital and investment in tools and equipment, and its own employees (who were even unionized) to undertake the operation and management of the light rail transit system, for which it was exclusively engaged by LRTA. Neither did LRTA exercise the prerogatives of an employer over the METRO employees. It thus concluded that LRTA's solidary liability as an indirect employer is limited to the payment of wages, and for any violation of the Labor Code,[18] excluding backwages and separation pay which are punitive in nature.[19]

The CA nonetheless held that LRTA cannot avoid liability for respondents' separation pay as it is a contractual obligation. **It agreed with the NLRC finding that LRTA provided METRO'S "operating expenses" which included the employees' wages and fringe benefits, and all other general and administrative expenses relative to the operation of the light rail transit system.**

The CA found additional basis for its ruling in the letter to the LRTA, dated July 12, 2001, of then Acting Chairman of the METRO Board of Directors, Wilfredo **Trinidad**, that "**Funding provisions for the retirement fund have always been considered operating expenses of METRO. Pursuant to the O & M**

Agreement, the LRTA had been reimbursing METRO of all operating expenses, including the funds set aside for the retirement fund. It follows—now that circumstances call for Metro to pay the full separation benefits—that LRTA should provide the necessary funding to completely satisfy these benefits."[20]

Also, the CA noted that "METRO'S November 17, 1997 Memorandum further revealed that the LRTA Board approved '*the additional retirement/**resignation** benefit of 7.65 days or a total of 1.5 months' salary for every year of service' for METRO'S rank-and-file employees and that lthe granting of 1.5 months' salary for every year of service as **severance or resignation pay** would effectively amend the existing Employees' Retirement Plan*."[21] This LRTA memorandum, together with its July 28, 2000 Resolution No. 00-44, the CA believed, was an indication that LRTA regularly financed the retirement fund.

Accordingly, the CA stressed, the LRTA cannot argue that the retirement fund was not meant to cover the separation pay of the "terminated" employees of METRO, and neither can it deny that it is bound to comply with its undertaking to provide the necessary funds to cover payment of the respondents' claim.

The CA brushed aside the prescription issue. It held that the complaint is not time-barred, citing *De Guzman v. Court of Appeals*,[22] where the Court affirmed the applicability of Article 1155 of the Civil Code[23] to an employee's claim for separation pay in the absence of an equivalent Labor Code provision for determining whether the period for such claim may be interrupted. It agreed with the NLRC conclusion that the prescriptive period for respondents' claim for separation pay was interrupted by their letters to LRTA[24] (dated September 19, 2002 and October 14, 2002) demanding payment of the 50% balance of their separation pay.

The Petition

Its motion for reconsideration having been denied by the CA, LRTA now asks the Court for a reversal, contending that the appellate court committed a serious error of law when it affirmed the NLRC decision.

It faults the CA for not ruling on the jurisdictional question which, it contends, had been settled with finality "in actions similar to the one at bar."[25]

On the merits of the case, LRTA submits that no liability, from whatever origin or source, was ever attached to it insofar as the respondents' claim is concerned. It disputes the CA opinion that its liability for 50% of the respondents' separation pay is a contractual obligation under METRO'S retirement fund. It also assails the CA's reliance on its July 28, 2000 Resolution No. 00-44 as evidence of its contractual obligation. It asserts it has no such obligation.

Lastly, LRTA contends that while its board of directors updated METRO'S retirement fund to cover the retirement benefits of METRO'S employees, the updating was a mere financial assistance or goodwill to METRO. It did not execute, it stresses, any deed or contract in favor of METRO, Avhich amended the O & M agreement between them, or assumed any obligation in favor of METRO or its employees; thus, it has no contractual obligation for the unpaid balance of respondents' separation pay.

The Respondents' Position

In their Comment[26] dated October 8, 2012, the respondents prayed that the petition be dismissed for lack of merit as the CA had committed no error of law when it affirmed the NLRC decision.

They stand firm on their position that LRTA is legally bound to pay the balance of their separation pay as evidenced by its official undertakings such as the Joint Memorandum, dated June 6, 1989,[27] with METRO, its wholly owned subsidiary, providing, among others, for the establishment of the Retirement Fund of METRO, Inc., Employees; LRTA Board Resolution No. 00-44 of July 28, 2000,[28] authorizing the updating of the retirement fund; and approving the collective bargaining agreements entered into by METRO with its unions containing terms and conditions of employment and benefits for its employees.

They also cite the letter to LRTA,[29] dated July 12, 2001, of the Acting Chairman of the METRO Board of Directors stating that funding provisions for the retirement fund have always been considered operating expenses of METRO. In short, they maintain, LRTA regularly financed the retirement fund intended not only for the retirement benefit, but also for the severance and/or resignation pay of METRO'S employees.

The Court's Ruling

The jurisdictional issue

LRTA reiterates its position that the labor arbiter and the NLRC had no jurisdiction over it in relation to the respondents' claim, quoting the Venus ruling to prove its point, thus: ***"x x x There should be no dispute then that employment in petitioner LRTA should be governed only by civil service rules, and not the Labor Code and beyond the reach of the Department of Labor and Employment, since petitioner LRTA is a government-owned and -controlled corporation with an original charter x x x Petitioner METRO was originally organized under the Corporation Code, and only became a government-owned and -controlled corporation after it was acquired by petitioner LRTA. Even then, petitioner METRO has no original charter, hence, it is the Department of Labor and Employment, and not the Civil Service Commission, which has jurisdiction over disputes from the employment of its workers x x x."***[30]

We disagree. Under the facts of the present labor controversy, LRTA's reliance on the *Venus* ruling is misplaced. The ruling has no bearing on the respondents' case. As we see it, the jurisdictional issue should not have been brought up in the first place because the respondents' claim does not involve their employment with LRTA. There is no dispute on this aspect of the case. The respondents were hired by METRO and, were, therefore, its employees.

Rather, the controversy involves the question of whether LRTA can be made liable by the labor tribunals for the respondents' money claim, despite the absence of an employer-employee relationship between them and despite the fact that LRTA is a government-owned and -controlled corporation with an original charter.