Legal Update Article

Minnesota Supreme Court Holds General Contract Disclaimer in Employee Handbook May Not Prevent Creating Contractual Obligations to Pay Out PTO

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Fourteen years ago, in *Lee v. Fresenius Med. Care*, 741 N.W.2d 117 (Minn. 2007), the Minnesota Supreme Court held that an employer's obligation to pay out unused paid time off (PTO) to an employee at termination depends on what the employer's PTO policy dictates. The holding was consistent with Minnesota law as it did not require employers to offer any PTO to employees. The issue of whether PTO is owed at time of termination is a question of contract, and employers can set the terms with a carefully drafted policy.

Last week, in *Hall v. City of Plainview*, No. A19-0606 (Minn. Feb. 3, 2021), a divided Minnesota Supreme Court held that the employer's PTO policy contained in an employee handbook could still be an enforceable contract with respect to the PTO policy specifically, although the Handbook repeatedly stated it was not a contract.

The Handbook in question contained several contract disclaimers at the outset, including: "The purpose of these policies is to establish a uniform and equitable system of personnel administration for employees of the City of Plainview. They should not be construed as contract terms." And: "[t]he Personnel Policies and Procedures Manual is not intended to create an express or implied contract of employment between the City of Plainview and an employee."

With the disclaimers, the Handbook also contained the PTO policy which read, in part: "When an employee ends their employment with the City, for any reason, 100% of the accrued unused personal leave time will be paid up to 500 hours, unless the employee did not give sufficient notice as required by the policy." Another section of the Handbook provided that if an employee does not provide 14 days' notice of resignation, the employee is not considered "in good standing" and "may be considered cause for ... denying leave benefits."

In *Hall*, the City terminated an employee who had managed its municipal liquor store for 30 years after the employee refused to "voluntarily resign" in lieu of termination. The City's letter offering the opportunity to resign instructed the employee that if he resigned "with sufficient notice," the City would pay him up to 500 hours of his unused PTO. At that time, the employee had accrued 1,778.73 hours of unused PTO. Because the City ultimately terminated the employee as he refused to resign, the City refused to pay out any of his PTO. The City reasoned that, "due to [the employee]'s failure to provide sufficient notice as set forth in the Handbook," he was not entitled to the PTO payout. The employee sued the City for breach of contract, alleging that the City owed him a PTO payout.

Ultimately, a jury will decide if the employee will get paid for his unused PTO. The Court held that the City's detailed PTO policy may be definite enough to create a unilateral contract,

the employee accepted the contract by performing work, and concluded "that this broad and general contract disclaimer language in the Handbook's introduction, in the context of the entire Handbook and the relationship between the City and its employees, is ambiguous as to its applicability to the PTO policy.... If the City truly wanted to preserve the right to withhold accrued PTO compensation from an employee after the employee had performed work for the City while the provision governing payment for accrued PTO was in place, it should have been more precise and clear about that intent." Because the Court found that the disclaimer language within the Handbook was ambiguous with respect to the PTO policy, the case was sent back to the district court for a fact finder to decide the merits of the case ("the question of the impact of the Handbook's general disclaimer on [the employee]'s claim is for a fact-finder to determine").

The Chief Justice dissented, explaining: "I disagree with the majority that the employer's intent to form a binding contract is ambiguous and must be determined by a jury.... In its quest for fairness, the majority has created uncertainty and confusion, which will benefit neither employees nor employers." Justice Anderson joined in the dissent.

Based on the *Hall* decision, employers should review their PTO policies and handbooks to evaluate what (if any) contractual obligations employers may face, intentional or unintentional. Please reach out to the Jackson Lewis attorney with whom you regularly work with any questions related to your employment or workplace law policies.