Published on *The National Law Review* https://natlawreview.com

Minnesota Employer's Handbook Disclaimer Fails on PTO Policy Under Wage Payment Statute

Article By:

Bruce J. Douglas

Minnesota employers will be heading back to the drawing board to revise their handbook disclaimers. The Minnesota Supreme Court now requires specific language in policies that set out the terms and conditions for payment of certain employee benefits such as payouts of vacation and paid time off (PTO). In *Hall v. City of Plainview* (No. A19-0606, February 3, 2021), the court held that a general provision in a handbook stating that the handbook is not a contract of employment does not prevent an employee from seeking to enforce the terms of an employer's PTO payout policy.

Background

Donald Hall was the manager of the City of Plainview's municipal liquor store. Under the city's PTO policy, he had accumulated nearly 1,800 hours of unused PTO, and the balance of his PTO was reflected in his payroll statements. In 2017, the city terminated Hall's employment and later refused to pay any of his unused PTO.

The city's handbook stated that its program combined all forms of PTO, including vacation and sick leave, into a single plan as "an alternative way of providing employees with paid time away from work for such things as vacation, personal business, or short term illness." The handbook further stated that "PTO is seen as a benefit, and it is used to help recruit and retain a qualified workforce."

The handbook specifically addressed payouts of unused PTO time on termination of employment. The handbook provided: "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." The policy stated that '"[e]mployees wishing to leave the City in good standing shall file' a written resignation at least 14 days before their departure and that '[f]ailure to comply with this procedure may be considered cause for … denying leave benefits.'"

The Handbook's General Disclaimer of a Contract of Employment

The city's personnel policies and procedures manual, like most employee handbooks, also contained an introductory disclaimer that stated: "The 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. The Personnel Policies and Procedures Manual does contain language dealing with the grievance procedure, employee discipline or termination, which the City may cho[o]se to follow in a particular instance. These provisions however, are not intended to alter the relationship between the City as an employer, and an individual employee, as being one which is 'at-will', terminable by either at any time for any reason."

Prior to the termination of his employment, the city offered Hall "the opportunity to 'voluntarily resign' … in lieu of termination." A letter from the city's administrator informed Hall that if he resigned "with sufficient notice," the city would pay up to 500 hours of his unused PTO. Hall refused the offer and the city council voted to terminate his employment. Hall later demanded payment of all of his nearly 1,800 hours of accrued PTO, and the city refused to pay out his unused PTO.

Lower Courts' Dismissal of Contract and Statutory Penalties Claim

Hall sued for breach of contract, a violation of the Minnesota Payment of Wages Act (Minn. Stat. § 181.13(a)), and unjust enrichment. Hall claimed that a binding contract existed between him and the city for the payment of his unused PTO. He further claimed that this contract could be enforced under section 181.13.

The district court dismissed Hall's claims for breach of contract and violation of the wage payment statute, but denied the city's request to dismiss his claim for unjust enrichment. On appeal, the Minnesota Court of Appeals affirmed the district court's decision. The court of appeals held that "the disclaimer language in the Handbook was 'substantially similar to disclaimer language in other cases'" the court had decided and, based on precedents and its reading of Minnesota case law, Hall's breach of contract claim must fail. The court of appeals also noted that "an employment contract must exist to recover under section 181.13(a)." The Minnesota Supreme Court granted Hall's petition for review.

Minnesota Supreme Court's Ruling: General Handbook Disclaimer Not Effective

In a 5-2 opinion authored by Associate Justice Paul Thissen, the supreme court reversed the court of appeals on the handbook disclaimer issue. The majority based its reasoning on its seminal decision in *Pine River State Bank v. Mettille*, 333 N.W.2d 622 (Minn. 1983). The handbook's specific provisions regarding the payout of unused PTO upon termination of employment constituted a unilateral contract. As the Minnesota Supreme Court previously ruled in *Pine River*, "a promise of employment on particular terms of unspecified duration, if in the form of an offer, and if accepted by the employee, may create a binding unilateral contract."

The majority summarized its view that "a unilateral employment contract is formed when an employer tells a potential employee, 'If you come work for me, this is what you will get in return,' and the potential employee performs the work. And once the work is performed, the employee earns the promised compensation and—at least for that period of work—the employer cannot rescind the terms of compensation."

Turning specifically to the issue of Hall's accrued and unpaid PTO, the court stated that "[a]ccrued PTO is a form of compensation for labor and therefore is fundamental to the employment relationship." The court noted that the city's policy regarding payment of accrued PTO remained in place through the date of Hall's termination of employment. Thus, the court was not required to decide whether the city had the right to alter the terms of the handbook on a prospective basis.

Supreme Court Finds a Unilateral Contract Existed

Based on its previous rulings in employee handbook cases, the court found that "'an employee handbook may constitute terms of an employment contract if (1) the terms are definite in form; (2) the terms are communicated to the employee; (3) the offer is accepted by the employee; and (4) consideration is given.'" The majority found all four conditions satisfied in this case. The court then turned its attention to the general disclaimer at the beginning of the handbook. Recognizing that the language was not unusual and may be commonly used by many employers, the court held the general disclaimer in the handbook to be insufficient to override the more specific provisions regarding the detailed PTO accruals schedule and payout procedures specified in the PTO policy.

The Effect of General Disclaimers in Handbooks

Whether a general disclaimer in a handbook can negate all types of contracts based on its provisions was a question of first impression for the Minnesota Supreme Court. The state's highest court recognized that the court of appeals had decided several cases involving general disclaimers in handbooks and upheld them as a means of preventing the formation of an employment contract. The supreme court, however, disagreed with the analysis employed by the court of appeals in its cases. The supreme court reasoned that the city's disclaimer in its personnel policies and procedures manual was "aimed at preserving the City's ability to terminate an employee at its sole discretion; it has no bearing on the issue of payment of accrued PTO."

The majority rejected application of the handbook's broad and general contract disclaimer language to the city's PTO policy, finding the disclaimer language to be ambiguous. "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," Justice Thissen wrote for the court. The majority reversed on this issue and remanded the case to the district court to determine the impact of the handbook's general disclaimer on Hall's claim for breach of contract.

Payment of Wages Act Does Not Create a Right to Recover PTO

The second issue addressed by the court, and one that employers may view as a positive development, is the court's unanimous holding that section 181.13(a) of the Minnesota Payment of Wages statute does not provide an independent substantive right to recover PTO or other compensation. Reinforcing its prior decisions holding "section 181.13(a) is a timing statute" governing when an employer must pay wages or benefits in accordance with its own promise or contractual obligations, or a specific provision of the law, the court held that the statute does not create a substantive right to the recovery of a particular wage or benefit. However, the court addressed certain legislative changes to section 181.13 made in 2013 and recognized that the statute may be ambiguous.

Key Takeaways for Minnesota Employers

The court's decision indicates that Minnesota employers no longer can rely on a general disclaimer of the at-will or contractual nature of the employment relationship stated at the beginning or the end of a handbook to govern all provisions regarding wages or benefits or other terms or conditions of employment. The disclaimer issue may be curable by providing the following: when and how often wages will be paid; how benefits such as vacation, sick leave, PTO, or other time off are accrued and

at what rate those benefits will be paid when used; and whether unused benefits will be paid upon termination of employment and, if so, any conditions that might lead the employer to deny payment of those unused benefits.

The failure to properly or specifically describe these terms may lead to a viable contract-based claim against an employer. In addition, a contract claim can give rise to enforcement and penalties under the Minnesota Payment of Wages Act. Employers may also expect further legislative action in this area as the trend in Minnesota law appears to be moving toward the creation of substantive rights to various types of employment benefits.

National Law Review, Volume XI, Number 49