

# An Analysis of Minnesota's Municipal Liquor Store Operations in 1995

## Overview

Minnesota's municipally owned and operated liquor stores reported an increase in net income for the second straight year. Municipal liquor stores reported an increase of 3.8 percent in net income for 1995, which was less than the 12.6 percent increase posted in 1994. During 1995, Minnesota's municipal liquor stores earned a total net income of \$12.5 million on record sales of \$164.2 million. Cities transferred \$11.9 million in liquor store profits to other municipal accounts in 1995, which was an increase of 24.3 percent over the \$9.6 million transferred in 1994. While the majority of municipal liquor stores were profitable in 1995, 30 cities reported a net loss in their municipal liquor operations.

*Minnesota municipal liquor stores transferred profits of \$11.9 to other municipal accounts in 1995. This represented an increase of 24.3 percent over what was transferred in 1994.*

During 1995, Minnesota's municipally owned liquor stores reported:

- gross sales of \$164.2 million, which was an increase of \$6.0 million over 1994 gross sales;
- a net income of \$12.5 million, which was \$451,800 more than the total net income reported in 1994; and,
- a net transfer of \$11.9 million, which was \$2.3 million more than the transfers reported in 1994.

## Background on Minnesota's Municipal Liquor Stores

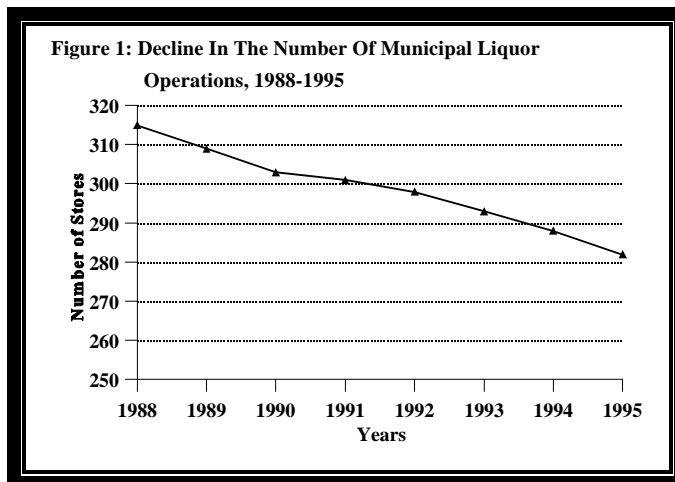
Minnesota law authorizes cities with fewer than 10,000 people to own and operate on-sale and off-sale liquor establishments.<sup>1</sup> During 1995, 255 Minnesota cities operated municipal liquor stores, with 162 cities operating both on-sale and off-sale liquor establishments and 93 cities restricting their municipally-owned establishments to off-sale liquor stores. While the majority of municipally owned liquor stores are located in small cities in Greater Minnesota, 21 cities within the Twin Cities metropolitan area own and operate liquor establishments.

Originally, Minnesota municipalities were authorized to own and operate liquor establishments as a means of controlling the sale of alcohol. Municipally-owned liquor stores also provided, and continue to provide, an added convenience for residents of small communities that might be unable to attract a privately-run establishment. However, as fiscal pressures on Minnesota municipalities have grown, the primary purpose for many of the current municipal liquor establishments has shifted to providing additional revenues to support public services.

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<sup>1</sup> Once a city with a population under 10,000 people has established a municipal liquor store, it may continue to operate the store regardless of its subsequent population growth.

The number of cities operating municipal liquor stores has steadily declined for many years. In 1994, five cities discontinued their liquor operations; in 1995, three more cities discontinued or sold their operations. The three cities that opted to discontinue their municipal liquor stores in 1995 are: Danube, St. Clair and Zumbrota. While cities often decide to discontinue unprofitable liquor operations, the three cities that discontinued their liquor operations in 1995 reported profits in 1994. Figure 1 shows the decline in the number of municipal liquor stores.



### The Profitability of Minnesota’s Municipal Liquor Stores

During 1995, Minnesota’s municipal liquor stores reported a second year of record sales totaling \$164.2 million. Total sales recorded in 1995 were up \$6.0 million or 3.8% over sales reported in 1994. The stores reported a net income of \$12.5 million in 1995, which was up 3.8 percent from net income reported in 1994. Total municipal liquor sales ranged from \$47,589 in Gary to \$6.8 million in Richfield. Net income and losses for municipal liquor stores ranged from a loss of \$38,553 in Shorewood to a profit of \$661,644 in Richfield.<sup>2</sup>

Municipal liquor operations located within the Twin Cities metropolitan area are considerably larger and more profitable than their Greater Minnesota counterparts. Although only 21 of the 255 Minnesota cities (8.2 percent) that own and operate municipal liquor stores are located in the Twin Cities metropolitan area, they represent 36.2 percent of the total sales and 30.2 percent of the net income of municipal liquor operations.

Sales by metropolitan area establishments averaged \$1.4 million in 1995, compared to average sales of \$439,957 for Greater Minnesota municipal liquor stores.<sup>3</sup> The average income of metropolitan stores was \$85,616 in 1995 compared to an average of \$36,595 for municipal liquor establishments in Greater Minnesota. All metropolitan cities except one reported profitable municipal liquor operations in 1995. Net income and losses among metropolitan liquor operations ranged from a loss of \$38,553 in Shorewood to a profit of \$661,644 in Richfield. Net income and losses among Greater Minnesota cities ranged from a loss of \$15,974 in Zumbrota to a profit of \$318,999 in Elk River.

<sup>2</sup> The city of Shorewood opened a third liquor store in late 1994 which resulted in startup costs in 1995.

<sup>3</sup> The 21 cities in the metropolitan area that have municipal liquor stores operated a total of 44 liquor stores. The 234 Greater Minnesota cities with municipal liquor stores operated a total of 238 stores. Average sales and net income reflect calculations based on the number of stores rather than the number of cities.

The municipal liquor stores operated by 30 Minnesota cities reported net losses for 1995, compared to 39 cities in 1994. Twenty-nine of the thirty cities with net losses are located in Greater Minnesota. Table 1 lists the cities and the amount of loss reported in 1995.

**Table 1**  
**Municipal Liquor Store Operations With Net Losses**

<b>Name of City</b>	<b>Net Loss</b>	<b>Name of City</b>	<b>Net Loss</b>
Shorewood	(38,553)	Lafayette	(6,431)
Zumbrota	(15,794)	Kellogg	(6,427)
Barnum	(15,792)	Hadley	(5,947)
Mahnomen	(15,687)	Delavan	(5,245)
Mabel	(13,697)	Cleveland	(5,198)
Avoca	(13,324)	Graceville	(4,522)
Hackensack	(12,831)	Grove City	(4,209)
Lismore	(11,576)	Lewisville	(3,963)
Proctor	(11,160)	Boyd	(3,653)
Winnebago	(10,642)	Goodridge	(3,329)
Currie	(9,553)	Oklee	(3,100)
Hills	(8,582)	Holloway	(3,070)
Hitterdal	(8,219)	Okabena	(2,235)
Fairfax	(7,676)	Heron Lake	(1,912)
Silver Lake	(7,218)	Elbow Lake	(595)

### **Liquor Store Profits Help Support Essential City Services**

During 1995, Minnesota's municipal liquor stores transferred \$11.9 million of their profits to support essential city services, a 24.3 percent increase over the total amount of transfers made in 1994. Liquor store profits that were not transferred to other municipal funds were used to bolster the fund balances of the liquor stores and purchase additional inventory. Cities that operate profitable municipal liquor stores and can transfer profits to other municipal funds are often able to hold down their property tax assessments for essential public services.

### **Municipal Liquor Operations Warrant Careful Scrutiny**

City officials who are responsible for the operation of municipal liquor establishments must make certain that the operations are managed appropriately and continue to have a positive financial impact on the city. Minnesota law requires cities to hold a public hearing on the future of its liquor store(s)

if the liquor operation has failed to make a profit in at least two of the past three years. Based on this statute, the following cities should have held a public hearing on their municipal liquor operations:

Avoca	Barnum	Boyd	Currie	Goodridge	Graceville	Grove City
Hadley	Hills	Kellogg	Lismore	Okabena	Proctor	Winnebago

In 1994, 31 cities were required to hold a public hearing on whether or not to continue to operate their municipal liquor stores. In 1995, the municipal liquor stores in 14 of those cities reported a profit; 5 of the cities discontinued operations; and 12 cities continued to operate at a loss.

Beyond the statutory responsibility of city officials to ensure that the liquor stores are making a profit, city officials also have a responsibility to ensure the liquor stores are managed efficiently and effectively. An analysis of the financial data for off-sale municipal liquor stores with similar levels of gross sales reveal large variances in total operating expenses. Table 2 highlights the variances in operating expenses for stores with similar levels of total sales.<sup>4</sup>

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<sup>4</sup> A similar analysis for cities that operate both on-sale and off-sale liquor establishments is not possible. The operating expenses of on-sale establishments are generally considerably higher than the operating expenses of off-sale establishments. It would be inappropriate to draw comparisons between the total operating expenses of on-sale and off-sale establishments in different cities. Such comparisons would be flawed due to the potential for contrasting the operating expenses of a city with a small on-sale operation and a large off-sale operation with the operating expenses of a city with a large on-sale operation and a small off-sale operation.

**Table 2**  
**Off-Sale Liquor Store Total Sales and Total Operating Expenses**

<b>Off-Sale Municipal Liquor Stores With Total Sales Between</b>	<b>Number of Cities</b>	<b>Range In Total Operating Expenses</b>
\$ 40,000 and \$ 150,000	7	\$ 7,184 to \$ 38,326
\$ 150,001 and \$ 200,000	5	\$ 34,019 to \$ 45,216
\$ 200,001 and \$ 250,000	8	\$ 36,073 to \$ 62,275
\$ 250,001 and \$ 350,000	4	\$ 45,182 to \$ 70,874
\$ 350,001 and \$ 450,000	8	\$ 61,277 to \$ 103,044
\$ 450,001 and \$ 650,000	15	\$ 80,784 to \$ 135,618
\$ 650,001 and \$ 950,000	9	\$ 79,421 to \$ 152,449
\$ 950,001 and \$1,350,000	10	\$ 139,441 to \$ 276,434
\$1,350,001 and \$2,000,000	12	\$ 196,678 to \$ 349,806
\$2,000,001 and \$3,000,000	8	\$ 259,388 to \$ 510,477
\$3,000,001 and \$6,900,000	7	\$ 601,999 to \$ 958,979

**Data In Report Should Help City Officials**

This report provides city officials with comparative data to help fulfill their responsibility to provide for the effective management of municipal liquor store operations. City officials should use this report to compare their liquor store finances to the finances of municipal liquor stores with comparable levels of gross sales. Table 5, beginning on page 17, lists financial data for Minnesota's municipal liquor stores arranged by total gross sales of the stores. This table facilitates financial comparisons between liquor stores of similar sizes. Using the data in this manner, city officials can determine whether their gross profits (total sales minus the wholesale cost of sales) and operating expenses are appropriate. Cities with relatively low gross profits should consider whether the gross profits reflect their intended mark-up policies. If gross profits are well below the intended mark-up of inventory, excessive theft or breakage of inventory may be responsible. Likewise, if operating expenses are relatively high compared to similarly sized stores, city officials should look at stores with low operating expenses for ideas as to how they might operate more efficiently.

**Table 3**  
**Summary of 1995 Liquor Store Operations**

**On-Sale and Off-Sale**

	1994		1995	
	Amount		Percent of Sales	
Number of Cities	168		162	
	Amount		Percent of Sales	
	Amount		1994	1995
Sales	\$ 56,968,265	\$ 55,855,276	100.0%	100.0%
Cost of Sales	34,210,040	33,333,745	60.1%	59.7%
Gross Profit	22,758,225	22,521,531	39.9%	40.3%
Operating Expenses	20,532,928	20,555,358	36.0%	36.8%
Income from Operations	2,225,297	1,966,173	3.9%	3.5%
Nonoperating Revenues	1,828,198	1,673,073	3.2%	3.0%
Nonoperating Expenses	295,535	277,202	0.5%	0.5%
Net Income Before Transfers	3,757,960	3,362,044	6.6%	6.0%
Transfers to Other City Funds	3,140,741	3,300,789	---	---

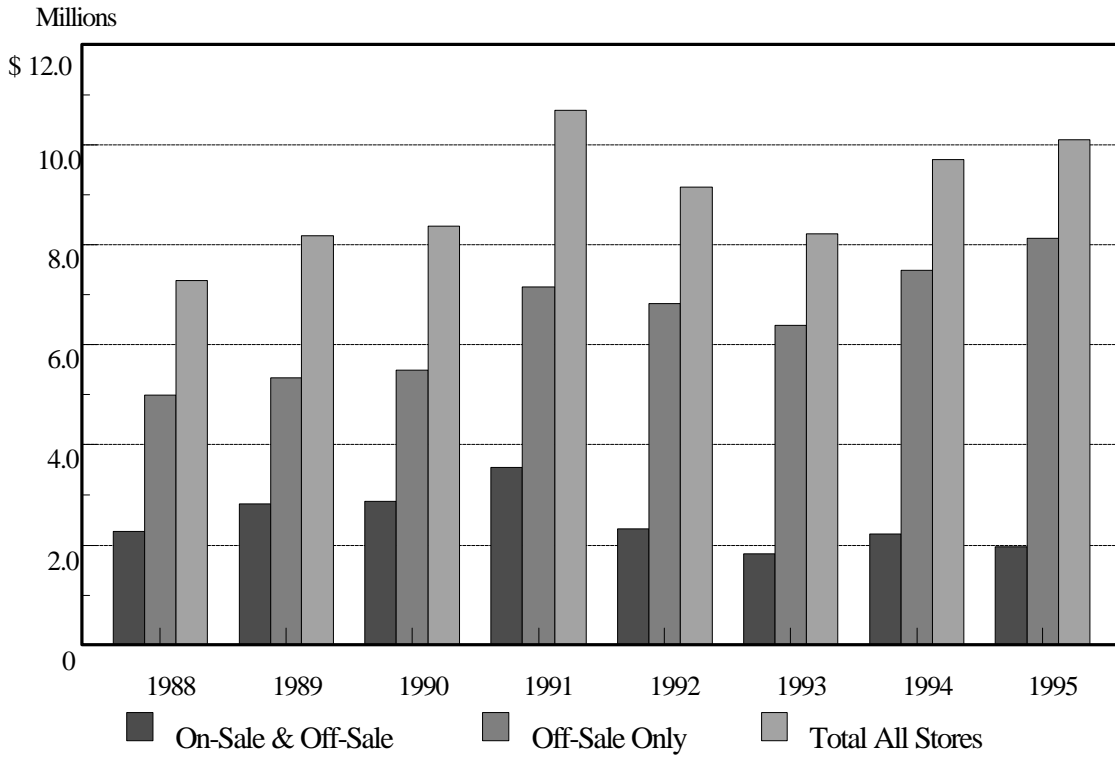
**Off-Sale Only Stores**

	1994		1995	
	Amount		Percent of Sales	
Number of Cities	93		93	
	Amount		Percent of Sales	
	Amount		1994	1995
Sales	\$ 101,217,594	\$ 108,324,419	100.0%	100.0%
Cost of Sales	77,520,905	82,630,959	76.6%	76.3%
Gross Profit	23,696,689	25,693,460	23.4%	23.7%
Operating Expenses	16,216,767	17,563,777	16.0%	16.2%
Income from Operations	7,479,922	8,129,683	7.4%	7.5%
Nonoperating Revenues	1,183,215	1,266,883	1.2%	1.2%
Nonoperating Expenses	396,175	281,888	0.4%	0.3%
Net Income Before Transfers	8,266,962	9,114,678	8.2%	8.4%
Transfers to Other City Funds	6,411,540	8,568,057	---	---

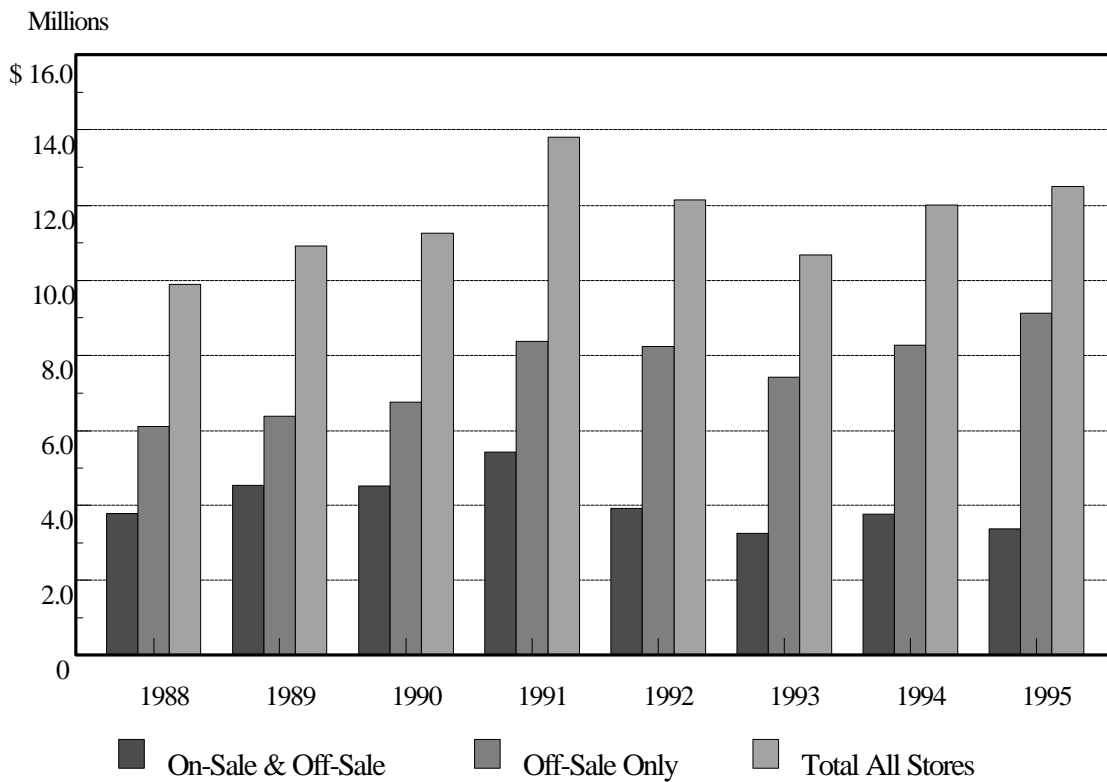
**Total City Liquor Stores**

	1994		1995	
	Amount		Percent of Sales	
Number of Cities	261		255	
	Amount		Percent of Sales	
	Amount		1994	1995
Sales	\$ 158,185,859	\$ 164,179,695	100.0%	100.0%
Cost of Sales	111,730,945	115,964,704	70.6%	70.6%
Gross Profit	46,454,914	48,214,991	29.4%	29.4%
Operating Expenses	36,749,695	38,119,135	23.2%	23.2%
Income from Operations	9,705,219	10,095,856	6.1%	6.1%
Nonoperating Revenues	3,011,413	2,939,956	1.9%	1.8%
Nonoperating Expenses	691,710	559,090	0.4%	0.3%
Net Income Before Transfers	12,024,922	12,476,722	7.6%	7.6%
Transfers to Other City Funds	9,552,281	11,868,846	---	---

**Figure 2: City Liquor Stores Operating Income**



**Figure 3: City Liquor Stores Net Income**







## **Appendix 1**

### **1995 Liquor Store Tables**















































## **Appendix 2**

### **Explanations of Tables and Charts**





## **Explanation of Tables and Charts**

The tables and charts throughout the report provide additional information on the financial activities of Minnesota's 255 cities with municipal liquor operations. Table 1 on page 3 lists those municipal liquor stores that reported net losses in 1995. Table 2 on page 5 compares off-sale liquor store total sales and total operating expenses. Table 3 on page 6 compares the operations of Minnesota's municipal liquor stores in 1995 to their operation one year earlier. Figure 1 on page 2 details the decline in municipal liquor operations between 1989 and 1995. Figures 2 and 3 on page 7 examine the eight-year trends in the operating income and net income of municipal liquor stores. (Net income includes non-operating revenues and expenses such as interest income, interest expenses and/or sale of capital assets.) Table 4 on pages 11 through 16 provides detailed summaries of the financial activity of all municipal liquor operations in the 255 cities that owned and operated liquor stores in 1995. Table 5 on pages 17 through 22 lists municipal liquor stores based on their gross sales. Table 6 on page 28 examines metropolitan area liquor operations. Table 7, on pages 24 through 29, examines liquor stores in Greater Minnesota.